Austria	Sch35	Indonesia	Rp3700	Pakistan	Rs35
Bahrain	Din1.250	Iran	Rls210	Phillipines	Pes40
Belgium	BFr60	Israel	Shk3.80	Poland	Zl 8,500
Cyprus	C£0.90	Italy	L2600	Portugal	Esc185
Denmark	DKr12.00	Jordan	JD1	Qatar	QR8.50
Egypt	E£2.25	Kuwait	Fils.800	S.Arabia	SR7.00
Finland	Fmk10.00	Lebanon	L£400.00	Singapore	S$4.10
France	FFr7.50	Lux	LFr55	Spain	Pta165
Germany	DM2.50	Malaysia	M$4.25	Sweden	SKr12
Greece	Dr150	Morocco	MDH9.50	Switz	SFr2.60
Hong Kong	HK$12	Neth	Fl 3.50	Thailand	Bht50
Hungary	Ft107	Nigeria	Naira18	Tunisia	Din1.000
Iceland	IKr165	Norway	NKr12.00	Turkey	L3500
India	Rs15	Oman	OR1	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

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Thursday September 6 1990

D 8523A

FRANCE

Drought and falling prices hit farmers

Page 16

World News

De Klerk sets out plan for black-white coalition

A multi-party coalition, including blacks and whites, would form South Africa's first post-apartheid government if talks between Pretoria and the African National Congress resulted in free elections. President F.W. de Klerk signalled that such elections would lead to the creation of a government of national unity, echoing comments by Nelson Mandela. Page 16

Airport boss for trial

The former chief of Rome's Fiumicino airport and three police officers were ordered to stand trial on charges of negligence over a 1985 Palestinian guerrilla attack there which killed 16 people.

Nato man accused

A West German Nato official has been arrested on suspicion of spying for East Germany. He is alleged to have passed on classified documents.

Koreans differ

The prime ministers of North and South Korea held their first formal meeting, presenting separate visions of Korean unity and revealing how far apart they remain. Page 4

Pakistan charges

Special Pakistan courts began trials of ministers in ousted Prime Minister Benazir Bhutto's government. Ex-minister Jahangir Badar, whose trial was put off, accused the caretaker Cabinet of harassment.

Angolan advance

US-backed Angolan rebels welcomed a proposal that the superpowers attend the next round of peace talks with the Angolan government to end 15 years of civil war.

Nuclear plan ditched

Poland has dropped plans for a switch-over to nuclear energy until the end of the century and halted work on its first nuclear power plant.

Columbia ready

After two failed launch attempts, the US space shuttle Columbia is on schedule for early morning lift-off today with an observatory tucked inside its cargo bay.

Cuban saga ends

A 58-day saga in which more than 50 Cubans sought to leave the country by sheltering in European embassies ended when the last two refugees abandoned the Spanish mission in Havana.

Assam bomb kills 20

At least 20 people were killed when a bomb wrecked their bus near Gauhati in India's north-east state of Assam. Singh's gamble, Page 4

Panama sacks chief

The new head of Panama's police, Lieutenant Colonel Fernando Quezada, was sacked by President Guillermo Endara for writing an open letter to a newspaper publisher.

Kidnappers shot

Colombian police shot dead 12 kidnappers linked to the Medellin cartel during an operation to free a prominent businessman who was, however, killed by his captors. But the man's son was rescued unhurt. Page 6

Emergency landing

A Pan Am jumbo jet with 400 people on board made an emergency landing at London's Heathrow airport after a 3ft fibre-glass wing panel fell off.

Enemies no more

Former enemies Argentina and Britain met in Rio de Janeiro to discuss co-operation over fishing near the disputed Falkland Islands.

Lord Caradon dies

Lord Caradon, formerly Sir Hugh Foot, British representative at the UN, has died in Plymouth, England, aged 82.

Business Summary

Japanese banks begin borrowing programme

Japanese banks began a substantial borrowing programme on the international debt market to bolster their strained balance sheets. Three banks raised $1.6bn of subordinated debt; up to 10 more may follow this month. Page 17

MARKETS: Wall Street: At mid-session the Dow Jones was 7.67 higher at 2,621.04. Tokyo: Nikkei average lost more than 1,200 before partially recovering to close down 829.31 at 24,078.34. Frankfurt: DAX index dropped 25.80 to 1,564.27. Back Page, Section II

BAT Industries, tobacco and financial services group, published first half results showing pre-tax profits down 11 per cent to £592m ($1.1bn), while earnings per share fell 20 per cent to 20.46p. Page 17; Lex, Page 16

ENIMONT: Italian Government has abandoned opposition to the full privatisation of the troubled public-private chemicals joint venture. Page 17

DRESDNER Bank, West Germany's second largest bank, has invested a further DM350m ($224.4m) in East German joint banking venture, bringing its stake from 49 to 85 per cent. Page 19

RHONE-POULENC, French chemicals group, reported a 12.9 per cent decline in net income for first half of 1990. Page 17

US has proposed that companies exporting services should be guaranteed the right to post managers, executives and specialists to recipient countries. Page 16

ARGENTINA has unveiled the fifth economic adjustment plan aimed at slashing public spending, stemming inflation and ensuring financial support from the International Monetary Fund. Page 6

ASTRA, Swedish pharmaceuticals company, raised its forecast for the year after reporting half-year, pre-tax profits of SKr1.2bn ($207m). Page 17

CENTRAAL Beheer and Avéro Verzekeringen, Dutch mutual insurance companies, have begun merger talks. Page 17

BRAZIL'S privatisation programme has begun with the sale of controlling interest in VASP, country's second largest airline. Page 16

SALOMON is holding talks to sell non-ferrous metals department of commodity trading operation Philipp Brothers as part of previously announced plans.

PIONEER International, diversified Australian building products group, has reported first loss in its 40-year history after a gross A$234.2m ($195.2m) in asset write-downs. Page 18

HONGKONG & China Gas, monopoly supplier of piped gas in the colony, continued an impressive run of results with interim profits up 20.2 per cent. Page 18

EUROTUNNEL'S principal bankers met to explore ways of bridging the shortfall in £2bn ($3.9bn) refinancing plan for Channel tunnel construction.

AMERICAN Stock Exchange and Reuters Holdings signed a letter of intent to develop an electronic marketplace to trade private placement securities. Page 22

PERU is ready to open oil and metal refining to private capital, ending a virtual state monopoly in both industries. Page 26

AUSTRALIA has nearly normalised relations with China by agreeing to a round of soft loans. Page 4

SECURITIES: private placements in the US market fell in the first six months of 1990 for first time in more than 10 years.

Iraqi Foreign Minister meets Gorbachev ● Sino-Soviet declaration demands withdrawal from Kuwait

Saddam issues defiant challenge

By Lionel Barber in Washington and Andrew Gowers in London

PRESIDENT Saddam Hussein of Iraq yesterday threw down a defiant challenge to western and Arab leaders ranged against him while pursuing diplomatic efforts to avoid a military showdown over his annexation of Kuwait.

In a combative speech frequently invoking the Koran and read on his behalf on Iraqi television, Mr Saddam reiterated calls for a holy war against US forces in the Gulf and for the overthrow of King Fahd of Saudi Arabia and President Hosni Mubarak of Egypt.

At the same time, Mr Tariq Aziz, his Foreign Minister, met President Mikhail Gorbachev in Moscow in an apparent effort to soften Soviet opposition to Iraq ahead of this weekend's US-Soviet summit meeting in Helsinki. Mr Taha Yassin Ramadan, Iraq's First Deputy Prime Minister, travelled to Peking last night to discuss what he called "the threat of foreign forces" in the Gulf.

Mr Saddam alluded to the tightening United Nations blockade of Iraq in his speech, saying that Iraqi children were dying as a result: "They are starving a whole people to death."

He warned that 5m Iraqis were ready to take up arms alongside his 1m-strong regular army. In a warning to any who might mount a military challenge to Iraq, he said: "They will be disastrously defeated, their dens in the region will be wiped out.... If the invaders want to attack, they need at least 12m soldiers."

He gave no hint that Iraq was preparing to take unilateral action. But he also made no mention of Iraq's occupation of Kuwait, or of a possible negotiated settlement.

In Moscow neither the Soviets nor the Iraqis commented on the outcome of Mr Aziz's talks with Mr Gorbachev. However, Tass, the Soviet news agency, indicated that Mr Gorbachev would maintain his tough line over the Kuwait invasion and officials said he planned to brief President George Bush on the talks this weekend.

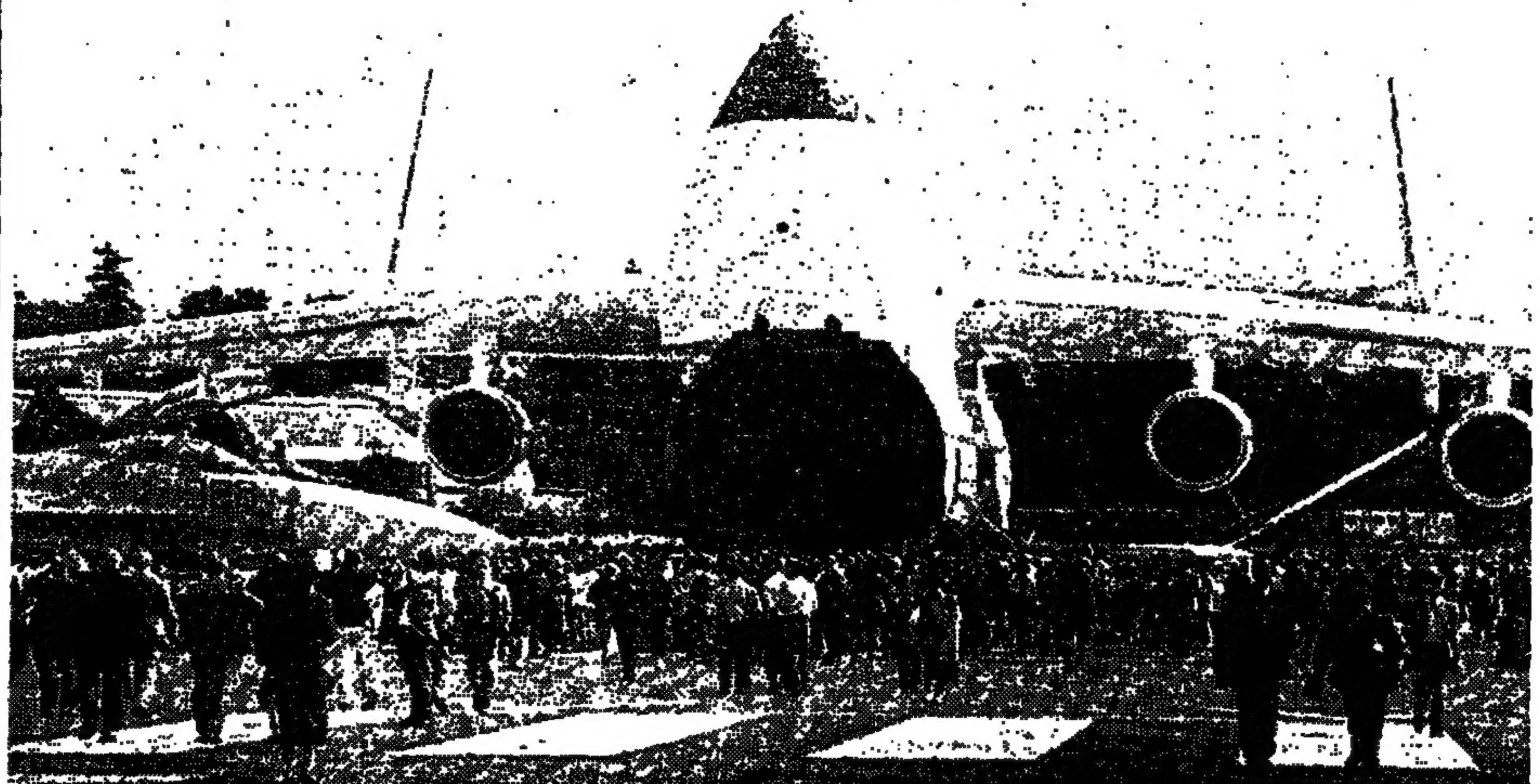
Mr Eduard Shevardnadze, the Soviet Foreign Minister, reinforced the impression of international solidarity by issuing a joint statement with his Japanese counterpart, Mr Taro Nakayama, in Tokyo calling for Iraqi withdrawal from Kuwait. It was the first such joint Soviet-Japanese declaration since World War Two.

Iraq's isolation was eased only by a visit from King Hussein of Jordan, who has been pursuing a faltering mediation effort for the last three weeks. He left Amman for Baghdad after talks with Mr Douglas Hurd, the British Foreign Secretary, who said he was still "reasonably hopeful" of a political solution to the Gulf crisis.

Mr Hurd was last night returning to London for today's special House of Commons debate on the crisis, during which Mrs Thatcher, the Prime Minister, is expected to maintain her tough line against Baghdad.

In Washington Mr James Baker, the US Secretary of State, told Congress that theUS planned to maintain a long-term military presence in the Gulf even if Iraq withdrew from Kuwait. He reiterated a suggestion that the bolstered US presence could be part of a new "regional security structure" that would not only stop

Continued on Page 16
Other Gulf reports, Pages 2-4; Editorial Comment and Economic Viewpoint, Page 14; Markets, Section II



The Soviet AN-225, seen with its nose door open at Britain's Farnborough air show, could be used to launch a joint east-west satellite

UK, Soviets study satellite launch plan

By Paul Betts in Farnborough, England

BRITAIN and the Soviet Union are to study the joint development of a space satellite launch system which could lead to a £2.3bn ($4.5bn) east-west space collaboration programme.

This follows a signing at the Farnborough Air Show yesterday of an agreement between British Aerospace and the Soviet Aviation Industry Ministry for a six-month joint study programme for a low cost satellite launch vehicle.

The study, to be carried out simultaneously in the UK and the Soviet Union, will consider the feasibility of a satellite launch vehicle based on the UK Hotol concept.

This new vehicle would be launched at an altitude of 9,000 metres from the Soviet Antonov AN-225, the world's largest aircraft. The six-engined transporter was used to launch the Soviet version of the space shuttle.

If such a vehicle is considered feasible and economical, the two groups will seek to interest their governments and other countries to consider a £2.3bn 10-year development programme.

The system would be designed to be a follow-up stage to the European Ariane satellite launch programme.

BAe explained that the Hotol concept studied by the UK group showed that by using an air-breathing engine for the initial phases of flight, optimising the vehicle design and using advanced structural technology, the performance required for such a vehicle was possible.

At the same time, the Antonov, with its heavy lift capacity, provided BAe with a possibility to design an interim Hotol concept capable of meeting some of the objectives of the original programme at reduced development costs.

By using the Antonov to launch the new vehicle from a flying aircraft instead of making it take off from a runway, the air-breathing propulsion system could be replaced by high performance rocket-propulsion. BAe and Rolls-Royce

Continued on Page 16
Other reports, Page 8

Soviet oil and gas workers issue strike ultimatum

By Quentin Peel in Moscow

LEADERS of 700,000 Soviet oil and gas workers in the vast West Siberian oilfield yesterday threatened to strike if the Soviet Government did not immediately implement emergency economic measures and social guarantees.

The drastic action, which would halt energy production larger than that of Saudi Arabia, could force President Mikhail Gorbachev to declare a state of emergency.

The threat came as plans were published for the most radical privatisation yet mooted for the Soviet economy, reinstating private property as the cornerstone of Soviet society.

There was no immediate information on the emergency measures demanded by the oil workers, although social guarantees would include protection from price rises stemming from economic reform.

Mr Gorbachev appeared on national television last night, appealing for an end to "politicking and the meeting-mentality," and suggesting that he was close to reaching agreement with republican leaders on the reform programme.

The core of that programme now seems likely to be based on the radical proposals of the 13-strong working group headed by Professor Stanislav Shatalin, a close adviser to Mr Gorbachev, calling for mass privatisation of state property.

An important unknown factor is the likely fate of Mr Nikolai Ryzhkov, the Soviet premier and close ally of the president, if the Shatalin plans are adopted instead of his own far more conservative proposals. These have twice been rejected by parliament.

The Inter-regional Group of radical Soviet deputies in the national parliament has announced its intention to demand Mr Ryzhkov's resignation when the Supreme Soviet, or parliament, reopens on Monday. Mr Boris Yeltsin, the Russian Federation president, has called for the same thing.

The oil workers' ultimatum now threatens massive industrial disruption at the same time. Mr Gorbachev might then have little option but to declare a national state of emergency, because West Siberian production is essential to the Soviet economy.

The threat was announced last night by Tass, the official news agency, quoting Mr Nikolai Trifonov, the trade union committee leader at Tyumen, the region's capital.

"A year has passed since we began to manifest our anxiety over sharpening social tension in the region," Mr Trifonov said. "On the contrary, allocations for the development of the Tyumen region were cut, and supplies to oil and gas works are irregular. The branch is on the verge of crisis. Mass dismissals have begun, and people are not protected by any resolutions. We demand serious decisions."

Soviet reform plan indicts 70 years of Communism, Page 7

IBM launches new mainframe family in bid to revive growth

By Alan Cane in London

INTERNATIONAL Business Machines, the world's largest computer manufacturer, yesterday launched more than 150 new products – including the most powerful mainframe computers the company has ever developed – in a move to increase lacklustre profitability and thwart increasing Japanese competition.

In a departure from its conventional approach to product launches, IBM placed more emphasis on how the new computers and software would meet customers' business needs rather than the technical superiority of the systems.

It is seen as further evidence of IBM's efforts to change its image from a technology-led company which dictates the way its customers should carry out their data processing to one which responds to its customers' requirements.

Last year, sales totalled more than $60bn. However, over the past four years, IBM's growth has been significantly below the industry average. Its share price and earnings per share have reflected the group's poor performance.

This year, IBM showed a 5.2 per cent increase in second-quarter earnings. It is the first time in two years that the company has sustained two respectable quarters and an indication that the recovery measures put in place, including a profound restructuring, were beginning to take effect.

Yesterday's launch, which took place simultaneously in all IBM's main computer markets, was the biggest the company has mounted. IBM said it believed it was of comparable importance to the launch in 1964 of the System/360 mainframe family which has dominated world data processing for the past 25 years. That exercise cost IBM many hundreds of millions of dollars. Comparable figures are not available for the latest products.

The new computers have been widely anticipated. They are designated ES/9000, but were known as "Summit" while in development.

Industry analysts had predicted that IBM would have to announce new and significantly more powerful machines if it were to retain its grip on the mainframe market.

Its share of the market, estimated at 80 per cent in 1987 by the Gartner Group, a US-based technology consultancy, has been slipping steadily. Some estimates predicted that it could fall as low as 70 per cent by 1993. Mainframe sales account for about 50 per cent of IBM revenues and a significantly higher proportion of its profitability.

The Japanese computer manufacturers, Fujitsu and Hitachi, present the principal challenge to IBM's domination of the world mainframe market. They build computers compatible with IBM's which run the same software, but perform better and cost less.

In recent weeks, both Fujitsu and Hitachi have launched mainframes which they claim to be the world's fastest.

Japanese manufacturers, however, have yet to master western methods for business data processing.

Details, Page 19

CONTENTS

Indian Prime Minister takes a gamble on the lower castes

One event is likely to prove the turning point of the administration of V.P. Singh, the Indian Prime Minister...his government's decision to give a greater role to caste in public sector recruitment

Page 4

MARKETS

STERLING
New York lunchtime:
$1.9055
London:
$1.8985 (1.877)
DM2.9675 (2.9725)
FFr9.9425 (9.9625)
SFr2.4650 (2.4725)
Y269.0 (269.5)
£ Index 94.7 (94.5)

GOLD
New York: Comex Dec
$393.0
London:
$378.50 (382.25)

N SEA OIL (Argus)
Brent 15-day Oct
$29.80 (29.075)

Chief price changes yesterday: Page 17

DOLLAR
New York lunchtime:
DM1.560
FFr5.2290
SFr1.2950
Y141.65
London:
DM1.5625 (1.5835)
FFr5.2375 (5.3075)
SFr1.2980 (1.317)
Y141.65 (143.6)
$ Index 63.1 (63.8)
Tokyo close:Y142.30

US lunchtime rates
Fed Funds 8¼%
3-mo Treasury Bills: yield: 7.61%
Long Bond: 97½
yield: 8.99

STOCK INDICES
FT-SE 100:
2,152.2 (+4.2)
FT Ordinary:
1,672.2 (+1.3)
FT-A All-Share:
1,045.08 (+0.1%)
New York lunchtime:
DJ Ind. Av.
2,620.05 (+6.68)
S&P Comp
323.69 (+0.6)
Tokyo: Nikkei
24,078.34 (−829.3)

LONDON MONEY
3-month interbank:
closing 14⅝-14½ (14⅝)
Life long gilt future:
83½ (82⅞)

CRISIS IN THE GULF

UK backs burden sharing moves

By Peter Norman and Alison Smith in London and William Dawkins in Paris

MR Nicholas Brady, the US Treasury Secretary, yesterday secured British backing for moves to raise international financial support to underpin the diplomatic and military action against Iraq.

After a 45-minute meeting with Mrs Margaret Thatcher, the Prime Minister, Mr Brady said the British prime minister was "enormously supportive" of US plans to organise support for the states in the front line against Iraq and the military deployment in Saudi Arabia.

Downing Street said that Mrs Thatcher told Mr Brady that the UK would certainly contribute to the financial assistance package and would let the US have detailed figures as soon as possible. Downing Street also said that the US was not pressing Britain to contribute further to the military burden-sharing initiative as it had already committed forces.

Mr Brady said that the US plan was the "third spoke of the wheel" alongside international diplomatic action against Iraq and the military build-up, which he said was fast coming into place.

At a press conference in London yesterday, he declined to specify how much the US proposed to spend in support of the front line economies or how this burden should be shared among the industrialised countries. However, he recalled that the President George Bush had said he would seek Congressional support to write off $7bn of Egypt's military debt and he hoped other countries would follow.

In Paris, which Mr Brady visited on Tuesday, officials said yesterday that the US was seeking contributions from Europe and Japan for $2.5bn of immediate emergency aid for Middle eastern countries hit by the Gulf crisis. The cash, which would help Turkey, Jordan and Egypt compensate for the damage to their economies caused by the trade embargo against Iraq and the rise in oil prices, represented the US estimate of their needs between now and the end of the year, the officials added.

"It is absolutely critical that we get money for the front line states," Mr Brady said in London. He said he did not discuss specific amounts with Mrs Thatcher but added: "We didn't get disagreement here or in France."

Mr Brady left London yesterday for Seoul, South Korea, and Tokyo on a whistle-stop world tour that will bring him back to Washington by Saturday. Mr James Baker, the US Secretary of State, will visit Bonn, Brussels and the Middle East to drum up support for the plan.

Mr Brady rejected suggestions that the US people would lose heart and cease supporting action against Iraq. While higher oil prices would have an effect on the US economy, he said they would not stop growth. "I'm not one to declare the US is in recession," he said. "What we are in is a period of slow growth."

Iraqi minister to visit China

IRAQI Deputy Prime Minister Taha Yassin Ramadan left Baghdad for China yesterday to discuss the Gulf crisis, the Iraqi News Agency reported, Reuter reports from Nicosia.

INA, received in Cyprus, quoted Mr Ramadan as saying he would discuss with Chinese officials "the threat of foreign forces" deployed in the Gulf region.

Bustle returns to arms bazaar after peace scare

By Lionel Barber in Washington

ONE OF the more eye-catching Gulf news items this week came in the form of a terse Pentagon statement announcing the award of a $145.4m contract to McDonnell Douglas for 40 F-18 fighter jets to be supplied to Kuwait's government.

A Pentagon spokesman breezily explained that the order was placed before Iraq invaded Kuwait on August 2. Since the US fully expects the exiled government of Kuwait to be restored, work can proceed.

The F-18 contract, which is valued at $1.3bn (£692m) over the next three years, is a windfall for McDonnell Douglas, whose aerospace business has been struggling recently. But the group is not the only US defence company benefiting from the Gulf crisis.

In the past four weeks the US government has announced plans for arms sales amounting to billions of dollars to Gulf states who see their long-term security threatened by the Iraqi conquest of Kuwait.

All leading US defence contractors – including Boeing, General Dynamics, General Electric and Raytheon among dozens of others – seem sure to gain, a relief after all the talk on how the Cold War's end would dramatically shrink defence business.

Saudi Arabia is the leading arms purchaser, with plans to buy about $9bn-worth of US jet fighters, tanks, light-armoured vehicles and other sophisticated weaponry.

But other countries such as the United Arab Emirates, Qatar, Bahrain, Oman and Egypt are lining up at the arms bazaar.

US defence industry executives may find this a mouth-watering opportunity to make money; but some countries, notably Israel, have voiced unease about the scale of Arab demands.

The planned contracts threaten to rewrite the conventional wisdom of the 1980s: that sentiment in Congress was so pro-Israeli that Jerusalem enjoyed a virtual veto on US arms sales to the Arabs.

Senator Alan Cranston, the veteran California Democrat who has been one of Israel's grittiest defenders over the past 20 years, remarked on the new political climate as he stood recently in the sands of Saudi Arabia. With Arab soldiers standing alongside US troops in defence of Saudi Arabia, it was difficult to turn down these countries' demands for arms supplies, he said.

The Saudi "wish list" for weapons includes F-15 Eagle jet fighters and M-1 tanks, equipment which the US forces brought with them to Saudi Arabia.

Reports last week suggested the White House has already asked congressional leaders to approve a $2.3bn deal, covering the purchase of 24 F-15s, 150 M-60/A3 tanks, ammunition, and 50 shoulder-carried Stinger anti-aircraft missiles.

The Bush administration has only balked at Saudi requests for the F-15E, the ground-attack version of the aircraft, which is the most up-to-date of its kind in the US inventory.

Even so the new sale would bring the Saudi total of top-of-the-line fighters to 110 – above the limit of 62 imposed by pro-Israeli supporters in Congress.

Egypt, whose solidarity during the Gulf crisis has underlined its status as Washington's most important Arab ally, also stands to gain. This week President George Bush asked Congress to approve the write-off of $7bn of debt incurred on US military sales since the 1979 Camp David peace accord with Israel.

If approved – and there are murmurs of discontent on Capitol Hill – the write-off would open the door to further creative financing to allow Egypt the weapons it says it needs. Two weeks after the Iraqi invasion, Mr Bush has already sought congressional approval to transfer at least 40 F-16s, dozens of Maverick air-to-surface missiles and cluster bombs to Cairo's arsenal.

Rather than object, Israel's response has been to up the ante; one item coveted by the Israelis is the Patriot missile air-defence system which is believed to be effective against Soviet missiles. Another tactic is to insist that the US stops back-tracking on its pledge to fund 80 per cent of the second stage of the Arrow missile, another high-tech air-defence system.

This week Mr Yitzhak Modai, Israel's Finance Minister, indicated that Israel wanted a similar write-off of its own $4.5bn debt to the US.

Other Israeli officials have indicated they would like up-front payment of Washington's military aid, now running at $1.8bn a year, according to US authorities.

The rush to arm US allies in the Gulf – with largely American weaponry – raises some delicate questions about the direction of overall US policy.

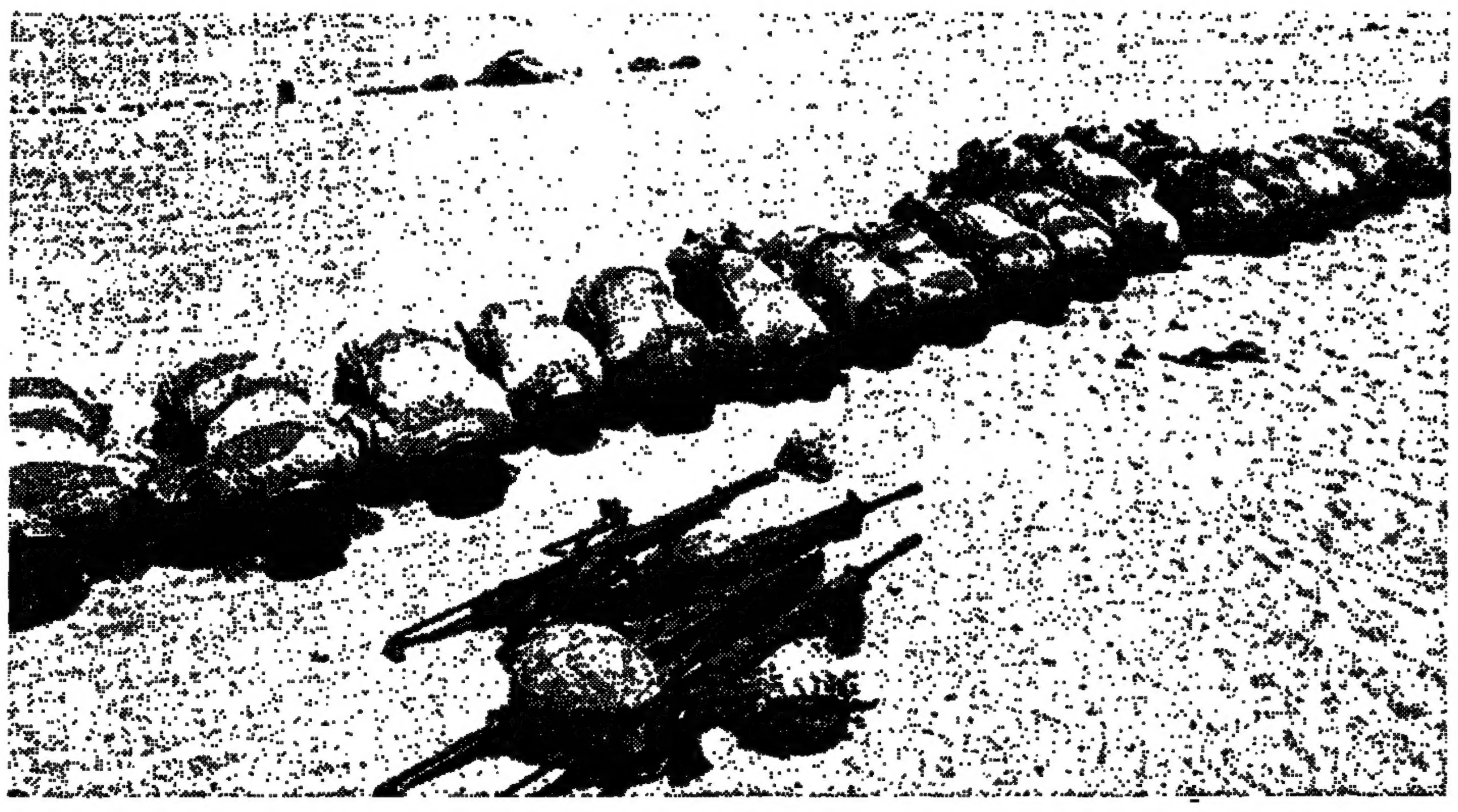
This week, for example, Mr James Baker, US Secretary of State, raised the prospect of a new regional "security structure" – on the lines of the Nato alliance – which would deter and, if necessary, punish future aggressors.

As Ms Judith Kipper, a Middle East analyst at Brookings Institution in Washington DC, points out, it is difficult to reconcile the huge sale of offensive weapons with collective defence.

In the post-invasion panic among Gulf states, she says, the US response was "we don't know what to do, so let's throw the military at it". What implications are there for potential arms sales to Iran, as a strategic counterweight to Iraq?

And if US defence companies become the dominant arms merchants, how will rival suppliers in France and the UK react? After all, they saw their arms sales to the region increase as a result of Arab disenchantment with an overly pro-Israeli US during the 1980s.

It is safe to conclude that if war breaks out and the US is seen to defeat Iraq, the US defence industry stands to reap even greater benefits. Just as in the Falklands conflict, the world will be watching to see which weapons really work.



Weapons piled before them, Saudi Arabian troops perform their religious ritual in the desert near Dhahran

Britain plans second bus convoy

By Robert Mauthner, Diplomatic Correspondent

MORE western women and children fleeing from Kuwait left Iraq yesterday, bringing to about 1,000 the number of westerners who have been allowed to leave since President Saddam Hussein announced they could go eight days ago.

Meanwhile Britain was arranging a second bus convoy to take 190 women and children stranded in Kuwait to Iraq for onward travel home, the Foreign Office said. On Tuesday more than 300 women and children left via Baghdad after travelling by bus from Kuwait.

An Iraqi Airways aircraft brought 157 westerners from Baghdad to the Jordanian capital Amman. Most of the passengers, who had been held for more than one month in Iraq or occupied Kuwait, immediately boarded a French airliner destined for Paris.

Officials said there were 62 French, 23 British, 10 Americans, 10 Greeks and an unknown number of Belgian, Italian and Australian women and children on the Baghdad flight. Meanwhile, a British Virgin Atlantic airlines jumbo jet flew 92 western citizens, most of them British women and children, from Amman to London. Another 100 West Germans and up to 50 other women and children, evacuated from the Iraqi capital to Amman, were flown to Frankfurt in a West German Air Force aircraft.

Iraq has banned foreign airlines from flying to Baghdad to collect women and children but is allowing Iraqi chartered aircraft to take them to Amman to catch connecting flights.

More than 300 British women and children, who reached Baghdad from Kuwait in a convoy of buses and cars on Tuesday night, are waiting for exit visas. A British Foreign Office spokesman said they had been well-treated and were put up in hotels for the night. He was reasonably confident that they would be issued with exit documents by the Iraqi authorities soon.

Another 30 British women and children, who had earlier been detained by the Iraqis on their way to the convoy and had been held in a hotel in Kuwait city, were yesterday being taken by the Iraqis to Baghdad by road. Fourteen British were also in the party. About 6,300 westerners remain in Iraq and Kuwait. British officials said that some 1,900 British citizens were estimated to be among the foreigners left in Kuwait, but that fewer than 100 were being held by the Iraqis.

Though Iraq has said it will let foreign women and children leave, western men over the age of 18 have been forced to stay behind. The intention, clearly, is that they should serve as hostages to deter any attack by international forces against Iraq.

Of the thousands of western men still in Iraq, some are being kept at military bases and other likely targets.

EC to give another £10m as refugee aid

By David Buchan in Brussels

THE European Commission yesterday decided to give a further Ecu15m (£10.4m) to help feed, shelter and repatriate Asian refugees fleeing from Iraq and Kuwait.

It also decided to seek the approval of EC governments for larger-scale and longer-term assistance, to help compensate Jordan, Egypt and Turkey for the effects of the Gulf crisis. Community foreign and finance ministers will discuss the Commission proposals in Rome over the next few days.

The Commission has already given Ecu5.6m in humanitarian aid since the start of the Gulf crisis, and yesterday it also decided to start freeing another Ecu30m from the EC budget for future help to refugees from the Gulf.

Since this involves switching money which has already been allotted in the Community budget, it requires approval of EC governments and the European Parliament.

In advance of tomorrow's special meeting of EC foreign ministers on the Gulf crisis, the Commission refused public comment on how much it has in mind as Community aid for Jordan, Egypt and Turkey.

However, according to one Commissioner, assistance might total Ecu600m for the first two of these countries.

The EC share will "be hundreds of millions, rather than billions", one EC official forecast, with the Commission proposing that half come from the Community budget and half from national budgets of the member states.

The Community has sometimes raised money for other countries – as, for example, Hungary this year – on the capital markets, using its budget as a guarantee.

But, given the risks involved, it is considered more likely to aid the Middle East countries directly with grants or loans from its own budget, rather than see its guarantee called in the event of a Middle Eastern default.

Jordan, Egypt and Turkey – the only three countries which the Commission proposes aiding for the moment – have put the cost to themselves of weathering the Gulf crisis at $3bn (£1.53bn) this year and $7bn next year.

Turkey has told the EC that it alone will lose $1.3bn this year in lost markets in Iraq-Kuwait, lost transit revenue, and the cost of accommodating refugees. But EC officials say Community aid is more likely to be skewed towards the more fragile economies of Jordan and Egypt.

NEWS IN BRIEF

Thatcher to keep up pressure on Iraq

Mrs Margaret Thatcher, Britain's Prime Minister, will maintain the pressure on Iraq when she opens an emergency House of Commons debate on the Gulf crisis today, Alison Smith writes.

An overwhelming majority of MPs in all the major parties will use the opportunity to send an unequivocal condemnation of Iraq's actions and the clear message it must leave Kuwait and release the hostages.

A group of left-wing Labour MPs, however, yesterday insisted that they be given the opportunity for a formal vote on the Government's handling of the crisis. The MPs, led by Mr Tony Benn, are seeking to put pressure on Mrs Thatcher to pledge Britain will not participate in a pre-emptive strike against Iraq.

Mr Neil Kinnock, the Labour leader, will emphasise his party's view that the crisis should continue to be handled to keep the widest possible international support in the "post-cold war" circumstances.

Go-ahead for Turkish forces

The Turkish parliament, after heated debate, last night empowered the government to send forces abroad in response to the Gulf crisis, Jim Bodgener reports from Ankara.

The motion was carried by the ruling Motherland Party (ANAP) over stiff dissent by opposition parties.

Previously, the government under the Turkish constitution required parliament's sanction before taking such steps.

Prime Minister Yildirim Akbulut said that sending troops to join a US-dominated multinational force in the Gulf would be the last option to be considered, but Turkey might send a warship.

Seized Iraqi tea ship sails on

THE interception of the Iraqi ship Zanubia by the US navy has again raised the question of how UN sanctions against Iraq can be enforced, writes Laura Marlowe in Dhahran.

The 3,549 tonne freighter was stopped by the US navy on Tuesday after being tracked by US military intelligence. It was carrying a cargo of Sri Lankan tea.

The ship was allowed by the Americans to re-route south to Aden.

The failure to impound the cargo could create a precedent. A US official in Saudi Arabia directed inquiries to Robert G Albion's 'Sea Lanes in Wartime' which, he said, specifies that a ship seized in wartime should proceed to a neutral port where the ship and cargo become the property of the government whose navy made the seizure.

Bronze monument for Saddam

The self-esteem of President Saddam Hussein has clearly not been undermined by the wave of international condemnation and the rigours of sanctions, judging by a new monument which has gone up in Baghdad, Robert Mauthner writes.

A brand-new 30-foot high bronze statue of the Iraqi leader, complete with beret and revolver and with his right arm thrust out, has just been erected near the Baghdad fairground.

Kuwait hires PR company

The Kuwaiti government in exile has hired Hill & Knowlton to assist its global public relations effort, Mr David Wynne-Morgan, chairman of the PR agency, said in London yesterday, Clay Harris writes.

He said the agency would offer advice on how to counteract what the Kuwaitis see as President Saddam Hussein's domination of Western media coverage.

Hill & Knowlton had despatched staff from its Bahrain and Dubai offices and two senior personnel from the US to Taif in Saudi Arabia where the exile government is based, he said.

Rare joint statement issued

JAPAN and the Soviet Union issued a rare joint statement yesterday calling for Iraq to withdraw immediately from Kuwait, the restoration of Kuwaiti sovereignty, and the freeing of foreign hostages by Iraq, writes Robert Thomson in Tokyo

The statement was issued after talks between Mr Eduard Shevardnadze, the visiting Soviet foreign minister, and Mr Taro Nakayama, the Japanese foreign minister.

A joint statement is unusual because of the troubled relationship between Japan and the Soviet Union since the end of the Second World War, and because of a continuing dispute over the ownership of the Soviet-held Kurile islands.

Japanese stress aid goes beyond help for US

By Ian Rodger in Tokyo

JAPANESE government leaders, preparing for the arrival tomorrow of Mr Nicholas Brady, the US Treasury Secretary, sought yesterday to dispel the impression that their aid to the multinational effort was supporting only US forces.

Mr Misoji Sakamoto, the chief cabinet secretary, said at a press conference that Japan would not be bound by US views on how the money should be spent. The government is seeking a multilateral forum to handle the funds, western diplomats in Tokyo said.

Finance ministry officials, meanwhile, said Japan would ask the International Monetary Fund and the World Bank to try to provide money quickly to Middle East countries hard hit by the Gulf crisis, circumventing the normal loan processes of the two institutions.

This presumably referred to the IMF's compensatory and contingency financing facility under which emergency loans can be extended to compensate for sudden shortfalls in export earnings and help cushion the impact of unforeseen external developments such as rising oil prices.

Not enough

Mr Toshiki Kaifu, the prime minister, told Dr Henry Kissinger, the former US Secretary of State, yesterday that he hoped to talk to Mr Brady mainly about Japan's planned additional aid programme for Jordan, Turkey and Egypt.

Dr Kissinger reportedly told the prime minister that the promised $1bn in Japanese assistance would not be enough to satisfy the US. Moreover, it was important for Japan to provide more than just financial aid.

Mr Sakamoto said yesterday that the government was discussing whether the dispatch of self-defence forces personnel is within the limitations of its pacifist constitution, which revokes the right to resolve international disputes with force.

He said the government plans to arrive at a decision before drafting legislation for a United Nations peace co-operation law proposed by Mr Kaifu last week or amending the Self Defence Forces law.

Meanwhile, early yesterday evening, a rusty old car carrier, the Sea Venus, left Nagoya port, carrying 800 Toyota and Mitsubishi four-wheel-drive vehicles for Damman in Saudi Arabia where they will be offered to US forces.

It was the first concrete manifestation of Japan's plan announced last week to contribute $1bn worth of goods, services and cash to the multinational effort to restore peace in the Gulf.

Moscow asks Brussels to consider making joint declaration

By John Wyles in Rome

THE Soviet Union has asked the European Community to consider making a joint declaration on the Gulf crisis, the contents of which would be agreed at a meeting between foreign ministers at the UN later this month.

The initiative appears intended to provide a counterpart with Europe to the declaration expected to emerge from the Helsinki summit this weekend between Presidents George Bush and Mikhail Gorbachev. Moscow's proposal reached the Italian government, current holder of the EC presidency, the day before the White House announced Sunday's Bush-Gorbachev meeting.

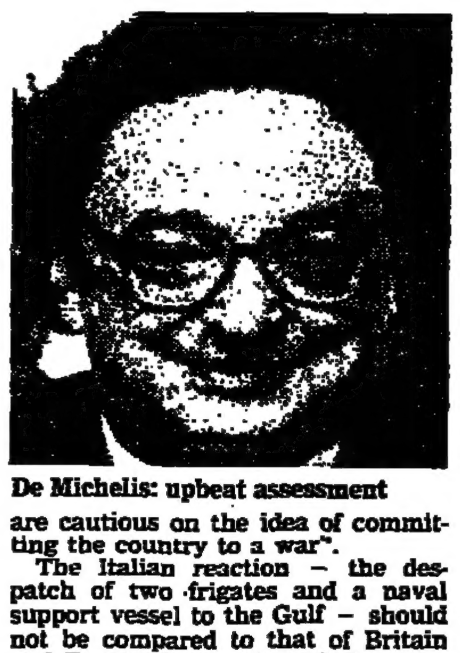
Mr Gianni De Michelis, Italy's Foreign Minister, told the Financial Times that the idea would be discussed at the informal meeting of EC foreign ministers in Rome tomorrow.

He would explore it further during a visit to Moscow at the end of next week. If the EC is in favour, the declaration would be adopted at a meeting between the Twelve's foreign ministers and their Soviet counterpart, Mr Eduard Shevardnadze, at the UN on September 27.

Having been at the centre of efforts over the past month to co-ordinate the reaction of Community governments to the Gulf Crisis, a tired but characteristically ebullient Mr De Michelis offered a strongly upbeat assessment of the contribution the Twelve had already made, and would make in the future, towards seeking its resolution.

He claimed the crisis had greatly enhanced the possibility of the Community making a large stride towards political union later this year, and vigorously defended West Germany, Italy and other EC countries against criticisms from Mrs Margaret Thatcher, UK prime minister, that their military contributions to enforcing the embargo against Iraq were inadequate.

Mr De Michelis said there still existed in Europe "divisions between winners and losers of the Second World War". In a certain way, Germany and Italy were still in Europe's second division because "they don't have veto rights at the UN, atomic bombs, military bases around the world, and military organisations on a world scale". But they did have "more or less binding constitutions and political environments which are cautious on the idea of committing the country to a war".



De Michelis: upbeat assessment

The Italian reaction – the despatch of two frigates and a naval support vessel to the Gulf – should not be compared to that of Britain and France, but to that of Germany and Japan, Mr De Michelis added.

He feared that the "winners and losers" division in the EC could still create difficulties for future policy co-ordination on the Gulf. "That is why I will say to my colleagues on Friday that we have to accept the political essence of President Bush's statement on burden sharing.

"This does not mean in a strict sense participating in US military spending in the Gulf, but it does mean participating in the costs of the solutions to the crisis." He thought that several EC countries would have political and legal difficulties in contributing to US military spending, which was, he argued, only part of the solution to enforcing the embargo and ending the Iraqi occupation of Kuwait.

Other costs involved would be those incurred in helping Arab, east European and other countries to cope with the financial difficulties they faced through applying the embargo.

EC foreign ministers will tomorrow discuss a Commission proposal, which Mr De Michelis said would cost "billions of Ecu", for aid to such countries. The Italian Foreign Minister said he would regard the British response "as proof of the real intentions of Mrs Thatcher". He hoped the British government "will be the first to support this idea".

For his part, Mr De Michelis appeared more certain than his British colleague, Mr Douglas Hurd, that an air embargo would be needed to tighten the screw on Iraq. "I am of the opinion that west European countries should demonstrate a will to participate in a stronger military contribution for a strict implementation of the embargo," he added.

In reviewing the steps taken by the EC since August 2, he had no doubt that the intensity of collaboration had been "a real start on building political union in Europe". The Community's reaction to the Iraqi invasion of Kuwait had been light years ahead of any of its previous reactions to major international crises both in speed and content.

It had adopted economic sanctions against Iraq before the UN Security Council, mobilised the Western European Union to co-ordinate military missions to the Gulf, and covertly introduced the principle of European citizenship by deciding that the treatment of any one national group of hostages in Iraq was a matter of concern to all EC states.

But most important of all had been the fact that defence and security issues had been discussed within a Community framework without any problem from Ireland, whose neutral status had led it to raise objections in the past.

Thus, the Gulf crisis had greatly influenced preparation for the EC's inter-governmental conference on political union to be launched in December.

In July, it had been an open question whether defence and security matters could be built into deeper foreign policy collaboration. "Now in a certain sense, the problem is solved and we will now have to discuss the legal aspects, institutions and powers".

Revealing once again the way in which Mrs Thatcher preoccupies senior EC leaders, Mr De Michelis thought that having contrasted the military contribution many EC states had made in the Gulf with their enthusiasm for political union, it would be hard for her now to resist efforts "to commit the Community to a higher political role". But it will surprise no one if Mrs Thatcher begs to differ.

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CRISIS IN THE GULF

Exiled Kuwaitis fight on to spread the word

By Tony Walker in Cairo

THE television in the corner of the hotel room on the 26th floor of the Intercontinental in Cairo, from where there are majestic views of the Nile and the Pyramids, is tuned permanently to CNN, the US TV news channel.

Here, above Cairo's dust and bustle, a watch is being kept on events in the Gulf by the man who has become, almost by default, the exiled Kuwaiti government's man in the Egyptian capital.

Dr Abdel Rahman al-Awadi, Minister for Cabinet Affairs in the deposed Kuwaiti administration, was in Cairo for a meeting of Islamic Conference Organisation foreign ministers when Iraqi troops invaded Kuwait on August 2.

He has been here ever since, helping organise the large expatriate community of Kuwaitis in Cairo, and liaising with the Egyptian government and the envoys who have been passing through in a steady stream.

"Cairo is politically very important to us," said Dr Awadi, getting up from his seat to increase the volume of the latest news bulletin from the Gulf. "It is the most important centre in the Arab world and we have the weight of Egypt and its people behind us."

With the imminent return of the Arab League General Secretariat to Cairo, it seems certain the Egyptian capital will continue as a focus for diplomatic efforts aimed at resolving the Gulf crisis and the after-shocks that are certain to follow.

Apart from its diplomatic importance, Cairo is a haven for the biggest community of Kuwaitis outside the Gulf area. Dr Awadi estimates there are some 15,000-16,000 in Cairo out of about 240,000 now in exile.

Easily the biggest community of all is in Saudi Arabia where there are believed to be as many as 170,000. There are 20,000 or more in the United Arab Emirates, as many as 20,000 in Bahrain and another 5,000 in Qatar.

Scattered across Europe there are perhaps another 4,000-5,000, with London having about 2,500. But with the expense of staying in Europe, many Kuwaitis are drifting back to the Arab world.

Dr Awadi estimates that about 500,000 Kuwaiti citizens remain in Kuwait, out of a total population there now of about 1.5m.

He believes that as many as 100,000 Kuwaitis have left since the invasion, and is concerned about the exodus continuing.

"We're very much worried about people leaving. We don't want our people helping the Iraqis to fulfil one of the aims of the invasion," he says.

Efforts now being devoted to resistance activities are aimed in part at persuading people to stay and fight for their country.

While Cairo is an important listening post for the deposed Kuwaiti regime, the Sheraton Hotel in the mountain village of al-Hada on the road between Taif and Mecca is the seat of the government-in-exile.

There, the Emir, Sheikh Jaber al-Ahmed al-Sabah, and his Ministers hold court and carefully monitor latest developments with the help of CNN.

The Emir's relocation to Saudi Arabia cannot be entirely comfortable. The Saudis have been extremely supportive in the present crisis, but relations between the neighbouring states have not always been harmonious.

The Kuwaiti royal family has on occasion chafed at what it has regarded as undue pressure from its bigger next-door neighbour.

The Kuwaitis have moved with a fair amount of speed in reconstructing an apparatus of government and media outside the country.

KUNA, the Kuwaiti news agency, has re-established itself in Saudi Arabia to help spread the word, and Kuwait's newspapers quickly found other publishing centres.

Al Qabas is publishing in London, Al Siyassa began on Tuesday in Jeddah, and Al Anba has been putting out a four-page paper in Cairo since mid-August.

Al Anba's editor, Mr Walid al-Marzouk, is distributing the broadsheet free and says he is ready to spend his last dinar on the paper.

Added to the publishing effort is broadcasting. Kuwaitis are beaming programmes from Saudi territory and a "Radio Kuwait" is operating from Cairo.

Kuwait is also seeking to reactivate state enterprises such as Kuwait Airways which now has its headquarters in Cairo. The Kuwaitis are talking about leasing additional aircraft to replace the 15 seized by Iraq.

Another state-owned business being re-established elsewhere is the United Arab Shipping Company in which the Kuwaitis hold 19.3 per cent of the shares. UASC, which has 48 vessels, will now operate from Dubai.

The shareholders who include, apart from Kuwait, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates and Iraq, have not yet decided what to do about the Iraqi 19.3 per cent share.

Dr Awadi said the Kuwait exile government, which is believed to have between $60bn (£32bn) and $100bn invested abroad, had sufficient funds to carry on its activities.

These tasks include helping exiled Kuwaitis financially. In fact, yesterday it was announced that the al Hada-based government is drafting legislation to provide allowances for Kuwaiti refugees at a cost of about $55m a month.

A medical practitioner by profession and a former Minister of Health, Dr Awadi said he realised very quickly after August 2 that Kuwaitis would have to organise themselves and take care of the needy.

"Being a physician," he observed, "you always prepare for the worst."

Sheikh Saad al-Abdallah, Kuwait's Crown Prince, pictured yesterday speaking at the Commonwealth Institute in London

NKB assets likely to have to shrink by half to ensure survival

Kuwaiti bank is reborn in London

By David Lascelles, Banking Editor

THE National Bank of Kuwait, Kuwait's largest, may have to shrink its assets to half their former size in order to absorb the impact of the Gulf crisis, says Mr Ibrahim Dabdoub, its chief general manager.

Speaking at the bank's London branch where he and other executives and board directors have found refuge, he said the bank was now working on a plan to ensure its survival from a UK base. "The first two weeks were a nightmare, but now we think we're coming out of the woods," said Mr Dabdoub, who has been running the bank since 1983.

In the first fortnight after the invasion, NBK had to deal with the double shock of the severance of credit lines by virtually all the world's leading banks, as well as the imposition of a freeze by major countries, both of them blows which could have felled lesser banks. "It was like an earthquake, as if the roof had fallen on our heads," said Mr Dabdoub.

Fortunately for NBK, it is a strongly capitalised and relatively liquid bank, and it has a large proportion – about half – of its assets abroad and therefore beyond the reach of the Iraqis. As a net lender to the international banking system, it is also less dependent on other banks for liquidity. Fortunately, too, the US authorities lifted the freeze on it within four days of the invasion, and other central banks including the Bank of England gave it leeway to manage its affairs. This helped NBK regain access to the banking markets, and redeploy its foreign currency assets, particularly dollars.

The Federal Reserve Board installed two officials in the bank's New York branch to help it deal with the crisis, and Mr Dabdoub said other central banks had been "very helpful". Only Canada, among the major countries, still has a freeze on NBK.

Mr Dabdoub said the bank had a two-pronged strategy to get business moving again.

The first was to raise and mobilise as much credit from other banks as it could. Several large banks, mainly in Europe and the US, had re-opened their lines, the major exception being the Japanese banks which cut their lines immediately after the invasion and had been reluctant to restore them since.

The London-based Kuwait Investment Office, which controls the bulk of Kuwait's official overseas assets, also made available a $300m credit line, though NBK has not yet had to use it. Statements by the Kuwait Finance Minister and Central Bank Governor that national assets would be available to meet the obligations of Kuwaiti financial institutions also helped underpin NBK's standing in the markets.

The second aim was to sell assets, mainly corporate loans and holdings of securities to generate liquidity. Mr Dabdoub said this had been quite successful, and NBK had been able to realise the assets with only small losses because they were high quality. But NBK would probably have to shed half its assets to offset the loss of deposits. At the end of last year, NBK's assets totalled KD3.9bn, ($13.5bn), of which KD1.7bn ($5.8bn) were loans.

Planning for the bank's future is complicated by the fact that nobody knows how long the crisis will last. Also, NBK is wary of taking any steps which might imply that it was preparing for a long-drawn-out war or was abandoning Kuwait. "Personally, I would like to think we could go back tomorrow, but as a banker I have to take steps to protect the bank's assets," said Mr Dabdoub.

None the less, NBK is believed to be exploring ways of reconstituting itself formally in London, where it has its largest overseas branch with some 40 per cent of the bank's overseas assets. The branch, in a large five-storey building in the West End, includes treasury and money market operations, credit and marketing, trade and corporate finance and advisory services.

But there are virtually no precedents for banks re-establishing themselves in exile and the task before NBK looks formidable. Before the crisis, the bank had the equivalent of $1bn of shareholders' equity and was capitalised at $3.5bn on the Kuwait stock exchange, where it accounted for about 40 per cent of the Kuwait stock market, according to Mr Dabdoub.

The bank also had a record as one of the most stable and best-run financial institutions in a country that was rocked by the collapse of the unofficial stock market in the early 1980s. Even if NBK survives, it will only be as a shadow of its former self.

Iraq opposition poses no threat to Saddam

By Andrew Gowers

IF THE west, in its desire to topple President Saddam Hussein, harbours any lingering hopes that Iraqi opposition groups might be able to lend a hand, then it had better think again.

There is no sign that opposition parties, either within or outside Iraq, are in any position to pose a threat to the Iraqi leader. They are divided, demoralised, and within the country itself, annihilated.

Reports from Syria, itself a long-standing foe of Iraq, in recent days have suggested that Mr Saddam's motley opponents, including Kurds, Communists and Islamic fundamentalists, might be near an agreement on forming a common front to overthrow the Baghdad regime.

But at least one exiled opposition leader in London, Mr Saad Jabr of the New Umma (Nation) party, set up by European-educated Iraqis, greets the news with a cynical shrug. "We heard such reports periodically during the Gulf war," he says. "These are remnants of parties."

For years, both Syria and Iran have tried to encourage their clients to work to overthrow the Ba'athist rulers of Iraq.

Damascus has sought to put together opposition coalitions under tutelage of the Syrian wing of the Ba'ath party, which split in two amid recriminations after the 1968 coup which brought the Ba'athists to power in Baghdad.

Since the 1979 Iranian Revolution, Tehran has fostered its own tame opposition groups, including Shia Islamic fundamentalists and, from time to time, Kurdish groups.

The main problem is that none of the exiled parties has any foothold in Iraq, because of more than 22 years of ruthlessly repressive rule. "Within the country, it [the opposition] is completely demolished," says Mr Jabr, who is one of the few Iraqi opposition figures bold enough to operate publicly in the west. "People don't even begin to think about it. Even outside, it does not amount to much."

Successively, the Iraqi Communist Party and the Shia fundamentalists have been crushed out of recognition. The Kurdish resistance, which for years has been seeking autonomy from Baghdad for the Kurdish inhabitants of northern Iraq, is cowed, not least because of the Iraqi army's use of gas against the Kurdish people of Halabja in 1988.

Outside Iraq, the position of some exiled opponents of the regime has improved somewhat since the August 2 invasion of Kuwait. The New Umma party, for example, has buried its differences with Saudi Arabia and with Kuwait and maintains regular contact with the US State Department and the British Foreign Office – although nobody apparently wants much to do with the Kurds for fear of offending Turkey, which has its own restive Kurdish population.

The only hope for people such as Mr Jabr is that once the trade embargo on Iraq begins to hurt, senior Iraqi army officers will draw their own conclusion and remove Saddam to save their own skins. At that point, he says, the "mute opposition" to the regime within Iraq might begin to make its presence felt.

CRISIS IN THE GULF

Relief agencies battle against refugee chaos

By Ralph Atkins in Amman and Jimmy Burns in London

RELIEF agencies are setting up new emergency camps and preparing shipments of aid in a renewed effort to prevent the exodus of refugees from Iraq and Kuwait from sliding into chaos.

However, there were signs yesterday that some of these efforts would have little impact because of organisational problems in dealing with more than 100,000 refugees stranded in Jordan.

Jordanian officials said a newly-completed camp near the oasis town of Azraq would have to be demolished because its nearness to a reservoir could risk widespread disease.

Earlier Red Cross officials in Jordan had suggested that pressure on the Shaalan evacuee camps on the Jordan/Iraq border could be relieved by the camp taking up to 30,000 evacuees before they return to their country of origin.

"It would have taken only one diseases person to pollute the natural water reservoir which lies only eight metres below the site after tents were set up," an official in Amman said.

Jordanian officials said the camp would now have to be moved to a new site but it would not be ready for a week.

Meanwhile on the Turkish border with Iraq at Habur, Turkish workers set up a sprawling "tent city" for up to 10,000 Asian refugees.

Trucks took tents and other emergency supplies from the League of Red Cross and Red Crescent Societies to a site normally used as a resting place for Moslem pilgrims going to and from Mecca.

Red Crescent officials said that 2,500 Bangladeshis would be allowed to cross the border into Turkey today. They would be taken by bus to the Mediterranean port city of Adana before being airlifted home.

Since the Gulf crisis erupted, about 470,000 refugees from Iraq and Kuwait have entered Jordan which has a population of less than 3m.

Officials linked to the Rome-based United Nations World Food Programme said last night that the number of refugees remaining in Jordan had dropped in the last four days from 114,000 to 105,000 and that food aid in the country was sufficient to cover needs for up to 30 days.

But both UN and Red Cross officials said the refugee problem remained "very serious" because of the lack of adequate facilities for distributing the food and water and providing medical assistance.

UN relief agencies are also suggesting that Amman airport is reaching the limit of flights it can handle and that large-scale transportation by sea from Europe may have to begin within the next two weeks.

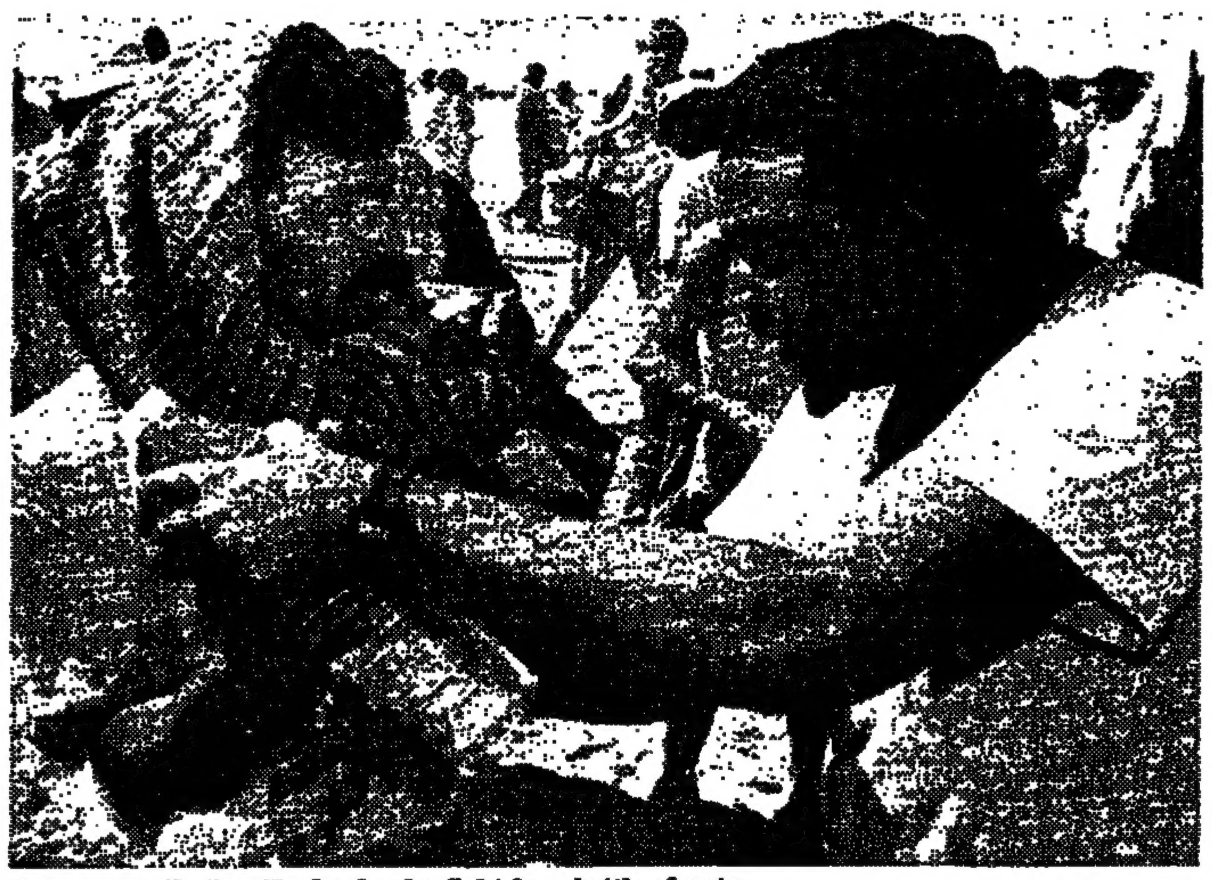
Over the last weeks, 54 aircraft have been chartered by the International Organisation for Migration to help 4,500 people – mainly Bangladeshis and other Asians – return home. It plans to airlift more than 13,200 in the next few weeks.

Ships chartered by the Pakistani government left Jordan's Red sea port of Aqaba earlier this week with 1,600 Pakistani refugees.

But yesterday a Soviet Anatonov transport plane due to airlift hundreds of Bangladeshis was delayed at Amman airport after failing to get early permission to cross Saudi Arabian air space.

In Paris, a senior Bangladeshi official said his government had asked the United Nations to co-ordinate an international airlift for refugees fleeing Iraq and Kuwait.

About 26,000 refugees, mostly Asians, have crossed into Turkey since the Iraqi invasion, according to Turkish border officials.



Refugees on the Iraq/Jordan border fight for a bottle of water

Jordan pledge on UN sanctions

By Ralph Atkins in Amman

MR Douglas Hurd, the British Foreign Secretary, won assurances from Jordan yesterday that it was adhering to UN resolutions against Iraq but he found deep-seated opposition from Palestinians to British policy in the Gulf crisis.

At the final press conference of his six-day tour of Arab states, about 50 Jordanian journalists walked out after a spokesman complained about the anti-Arab policies of the British government.

The protest – although small-scale – underlined the tensions evident at Mr Hurd's meeting with Jordanian ministers. Mr Hurd said it was a "sad aspect" of the crisis that the world's focus had been shifted from the Palestinian problem but said Palestinian supporters could not complain about the occupation of the West Bank while making excuses for Iraq.

Saddam's call for simultaneous withdrawal of occupying forces from Kuwait and the West Bank "was simply a smokescreen for his aggression," said Mr Hurd.

After meeting Mr Marwan Qasem, Jordanian Foreign Minister, the British Foreign Secretary found some comfort in the assurances he had received. "Our view about the present crisis in the Gulf is that the only peaceful solution for those who believe in justice and world order is an unconditional Iraqi withdrawal from Kuwait and the restoration of its legitimate government. That is also the view of the Jordan government as expressed to me today," Mr Hurd was later due to meet King Hussein.

Jordan's position in the conflict has been heavily influenced by its large Palestinian population and its proximity to both Iraq and Israel. Mr Ibrahim Izzadin, Minister of Information, said the only goods coming into the port of Aqaba were for Jordanian markets. Oil continues to be imported from Iraq while alternative supplies are arranged.

Jordan also believes it has a role as a mediator, arguing that a channel of communication has to be kept open with President Saddam Hussein. King Hussein is due to fly to Baghdad for talks with the Iraqi leader.

Mr Hurd acknowledged the economic implications of sanctions for Jordan, where a third of the foreign trade was with Iraq and Kuwait. He believed compensation could be paid if UN resolutions were implemented effectively.

He recognised the extreme burden faced by Jordan by the influx of evacuees over its border with Iraq. "We accept and are acting on the humanitarian need to deal with this problem which has been caused by Saddam Hussein."

Mr Hurd, who is due to wind up the two-day debate starting today in the British Parliament on the Gulf crisis, said he was reasonably hopeful that a solution of this crisis could be reached without further bloodshed.

Chilean arms maker no stranger to controversy

Cardoen has sold to Pretoria and Baghdad writes Leslie Crawford

MR Carlos Cardoen, the Chilean arms manufacturer, is no stranger to controversy. From supplying Baghdad with cluster bombs during the Iran-Iraq war to his close ties to the South African defence establishment, the 48-year-old entrepreneur's notoriety extends far beyond his actual business clout.

What singles out Mr Cardoen in the secretive world of the international arms trade is that he is uncommonly candid about his line of business. He taps the technological know-how of more sophisticated defence manufacturers, adds a few modifications of his own, and produces a more competitive product because of the cheaper labour costs in Chile.

In this way, he was able to sell $200m-worth of cluster bombs (fitted with South African fuses) to Iraq at about $6,000 a piece, when the equivalent French weapon cost $26,000. He also built a factory near Baghdad to enable Iraqis to manufacture cluster bombs.

His relations with Pretoria are well-publicised. Mr Cardoen is co-producing a self-propelled gun with Armscor, the state arms manufacturer, and the first unit was test-fired in the Atacama desert last year before Lieutenant General Magnus Malan, the South African Defence Minister. Mr Cardoen's open collaboration with Pretoria in the face of the international arms embargo has been strongly criticised by the UN.

Mr Cardoen has again hit the headlines over his alleged collaboration with GEC-Marconi in a project to build the British company's Stonefish naval mine in Chile. GEC-Marconi denied last week it had supplied any "information, drawing, design or technology" that would enable the Chilean group to produce such a weapon.

In Santiago Mr Raul Montecino of Industrias Cardoen said: "We understand that owing to the crisis in the Gulf, Marconi should wish to disclaim any contact with Cardoen...But what they cannot deny is that they developed a joint project with us."

According to Cardoen the Stonefish was never produced in Chile because the potential clients did not materialise.

Defence analysts in Santiago have linked Cardoen's interest in the Stonefish mine, an "intelligent" seabed weapon that can distinguish between enemy and friendly vessels, with his acquisition through third parties of Cosmos, an Italian producer of miniature submarines.

Iraq may have deployed mines with similar characteristics to the Stonefish

According to the British publication Naval International, the main markets for midget submarines are Iraq and South Africa. They are seen as ideal for mining in the Gulf.

Industrias Cardoen was not surprised by reports that Iraq might have deployed mines with similar characteristics to the Stonefish, but it denied categorically that Baghdad could have got hold of the technology through the Chilean company.

Mr Cardoen's links with Saddam Hussein's regime, which allowed him to lay the foundations of a diversified business empire, have badly backfired since Iraq's invasion of Kuwait on August 2.

The company says it has not sold any armaments to Iraq since the 1988 ceasefire in the Iran-Iraq war, but it had been involved in several reconstruction projects. In mid-1989, Mr Cardoen estimated these projects, which included an engineering plant of high-precision, robot-controlled industrial lathes, to be potentially worth some $500m.

But with Chile joining the UN commercial embargo against Iraq, Industrias Cardoen has been forced to abandon its Iraqi ventures with losses estimated at $45m.

Even before Iraq's invasion of Kuwait, the loss of Cardoen's main arms market as a result of the Iran-Iraq ceasefire was forcing the company to diversify. The group now exports 200,000 boxes of fruit per year, owns 4,500 hectares of pine and eucalyptus forests, and produces components for copper smelters. With ICI, it manufactures chemical explosives for the mining industry. It is developing a mine with Outokumpu of Finland. Cardoen bought a Chilean bank, the Banco del Pacifico, for $11m last year, a Chilean matches company this year and plans to inaugurate an $11m jeans manufacturing plant in January 1991.

Only 10 per cent of the group's total sales of $75m in 1989 came from defence products. Industrias Cardoen, the arms manufacturing division, registered a loss of $3.3m.

Cardoen has appointed a new general manager, Mr Ismael Vicuna, who plans to take Industrias Cardoen into civil and industrial engineering.

Nevertheless, Cardoen's South African connections, and a new project to build a "multi-purpose" helicopter will ensure the Chilean company's continued presence in the field of defence.

Industrias Cardoen has adapted the US Bell Long Ranger civilian helicopter for military purposes, with the aim of marketing a Third World combat helicopter for about one-quarter of the price of an Italian or US model.

The helicopter is understood to have already received US Federal Aviation Agency certification. But as defence analysts saw Iraq as the main potential customer for Cardoen's helicopter, the fate of the project is now unclear.

INTERNATIONAL NEWS

Singh takes a gamble on the lower castes

David Housego reports on the likely impact of public sector job reservation

IF THERE is one event that is likely to prove to be the turning point the of administration of Mr V.P. Singh, the Indian Prime Minister, it is his government's unashamedly populist decision to give a greater role to caste in recruiting for public sector jobs.

The violence and demonstrations that this has triggered across northern India – where six people were killed on Tuesday when police fired on a crowd of students in Patna – and the continuing closure of schools in Delhi, are the visible tip of a much deeper social and political earthquake that is now in motion.

The measure marks a turning point in that it has cost Mr Singh the support of much of the educated youth and urban middle class, who helped him to victory last year and whose voice carries more political weight than their numbers would suggest. It has also left him vulnerable to the damaging charge that he is further dividing the country on caste lines.

In a candid admission before university students last week, Mr Rajmohan Gandhi, grandson of the Mahatma who campaigned on a platform of "value-based politics" on behalf of Mr Singh's National Front against Mr Rajiv Gandhi in the former Prime Minister's Amethi constituency last year, said: "Many among you feel betrayed by Mr V.P. Singh in whom you earlier had faith." He added: "It can be said in all fairness that your [job] prospects have been damaged, your rights hurt... and you have been wronged."

Mr Rajmohan Gandhi was speaking to students who elsewhere would be called middle class but who in India mostly come from the upper castes that still dominate most northern universities. The impact on them of Mr Singh's new measures at a time of an acute shortage of graduate jobs is large.

Mr Singh announced last month that 27 per cent of jobs in the central government service and the public sector would in future be reserved to castes that are "socially and educationally backward". This is a category that stretches from goldsmiths to blacksmiths, carpenters, farmers and landless labourers. It includes some castes like the Yadavs, Kurmis and Koiras in the north who are already politically powerful and some who are close to being "untouchables". It includes some wealthy families and many poor.

The government has said that it is still considering whether to extend the 27 per cent quota to promotions as well as to new entrants. But in answer to criticisms that the new reservations will not sufficiently benefit the worst-off, Mr Singh has added a further 5 to 10 per cent quota for the poor. Thus with the 22.5 per cent of jobs already reserved for untouchables (the "scheduled castes" in the Indian Constitution), this means that up to 59.5 per cent of public sector jobs will be allocated on the basis of caste rather than merit.

For students leaving school or university, the new measure thus dramatically reduces their job prospects. On the basis of the number of new jobs created over the last 12 years, a 27 per cent job quota means that 71,000 new jobs a year could be removed from open competition and filled on the basis of caste.

This is 42 per cent more than the 50,000 new jobs that the organised private sector has created each year over the last 12 years - and comes at a time when there are 2.8m graduates registered as unemployed. It is little wonder that many parents are angry.

The other side of the coin – and another reason for seeing the measure as a turning point – is the new horizon in terms of jobs and political power that it opens up for the so-called backward castes who account for more than half the population. A euphoric Mr Ram Lilas Paswan, Minister of Labour in the present government, says that "in 15 years Mr V.P. Singh (himself of princely caste) will be worshipped like anything".

Mr Paswan is one of the most articulate spokesmen of the backward castes and untouchables in the government and has an entry in the Guinness Book of Records for winning the largest electoral majority in the world in his Bihar constituency.

For long the backward castes were excluded from all but menial jobs in government service. "The only merit that was recognised was the family into which you were born", says Mr Paswan, adding that the backward castes cannot be blamed for the corruption and misdeeds of government since independence. But over the last 10 years, in part because of an agricultural revolution in the north, the more vocal among the backward castes have been gaining in wealth and political power.

If their demands for a larger proportion of government jobs had been refused, Mr Paswan says "more violence would have taken place". As it is, the new measure "will give a moral boost to those who have been kept outside power. It will generate social awareness. These people will realise they are masters of this country."

The other main political parties have been caught off balance by the measure. Mr Rajiv Gandhi concedes in private that job reservation is a retrograde measure of that will push up public sector costs and inefficiency. But the political compulsions are so strong that in public his Congress party is ready to compromise with a ceiling on reservation in the central government of about 50 per cent.

India's record so far with job quotas as a system of positive discrimination intended to offset social disadvantages has been patchy. The 22.5 per cent reservation for untouchables – those who carry the stigma that they supposedly pollute others – has remained unfilled because too few candidates have applied in spite of much lower entrance requirements. Also providing jobs for a few has diverted public focus away from the hardships of others.

In putting forward the programme, Mr Singh's intentions have been blatantly electoral. As the leader of a minority administration, he needs to broaden his electoral support. With the departure of Mr Devi Lal as Deputy Prime Minister, he has lost much of the backing of the rich farmer class of the north. He is thus looking to the backward castes to give him a new political base. Mr Paswan's calculation is that the backward castes account for 54 per cent of the population. Mr Singh, he claims, also has the support of the untouchables (22 per cent) and the Moslems (12 per cent). He thus has a potential vote bank of 90 per cent of the population. But even in a country of growing populism, elections are not won by such simplistic arithmetic.

Lower caste Hindus in a pro-job reservation rally outside the Prime Minister's house in New Delhi

PM's absence puts meeting on Cambodia in doubt

By Claire Bolderson in Jakarta

REPRESENTATIVES of Cambodia's four warring factions assembled in Jakarta yesterday to attend a meeting aimed at bringing a peaceful end to the country's 11-year conflict, but the absence of Mr Hun Sen, the Prime Minister, has cast doubt over the meeting's effectiveness, if indeed it goes ahead at all.

Hun Sen, who is being represented by a senior minister, has said that he would not attend the Jakarta meeting because Prince Norodom Sihanouk, the leader of the anti-government coalition, had declined to go.

Mr Ali Alatas, the Indonesian Foreign Minister, yesterday held a series of bilateral meetings with each of the three resistance factions and with Mr Hor Nam Hong, Phnom Penh's representative, at which Mr Hun Sen's absence was discussed.

A Foreign Ministry official said afterwards that no decision had been taken on whether the meeting would go ahead. Indonesia was awaiting the arrival today of Mrs Edwige Avice, a French Foreign Ministry official, who under the auspices of the Paris International Conference on Cambodia would co-chair the meeting with Mr Alatas.

The main purpose of the Jakarta meeting is to discuss the composition and function of a Supreme National Council, consisting of representatives of all the Cambodian factions, that would govern Cambodia in the run-up to United Nations supervised elections.

The meeting is also intended also discuss the details of the five papers agreed by the five permanent members of the UN Security Council in New York last week, which among other things cover provisions for a ceasefire in Cambodia and for the disarming of all the fighting parties.

Top level talks leave two Koreas divided over UN

By John Ridding in Seoul

NORTH and South Korea yesterday began the highest-level talks to be held between the two countries since the end of the Korean war, but speeches by the respective prime ministers revealed wide differences on several issues.

Mr Yon Hyong Muk, North Korea's prime minister, reiterated a series of sensitive demands including the release of imprisoned South Korean dissidents and the end of annual South Korean military exercises with the US. North Korea regarded these as "urgent matters" which must be solved to end military and political confrontation.

South Korea made no official response, but has previously regarded these matters as its own business. Analysts said Seoul was unlikely to accept North Korea's requests.

Earlier, Mr Kang Young Hoon, South Korea's prime minister, announced a series of proposals aimed at easing tensions and promoting cross-border travel and economic links.

In an eight-point draft agreement to improve inter-Korean relations, Mr Kang proposed mutual recognition of each other's political and social system, the promotion of personal and economic exchanges, and steps to strengthen the existing armistice agreement.

South Korea issued two further sets of proposals giving details of its aims for bilateral exchanges and reducing political and military tensions. These included "inter-Korean exchanges of people" during certain national holidays, promotion of trade and investment links, re-connection of road and rail links, and the opening of postal and telephone contacts.

Seoul also proposed a telephone hot-line between the respective defence ministries, advance notice of military manoeuvres, and disclosure of military information.

The proposals reflect South Korea's policy of improving relations through gradual confidence-building steps. North Korea, by contrast, is pressing for more immediate arms cuts.

Differences became apparent over the question of membership of the UN. Mr Yon said North and South Korea should pursue membership only after unification or as a single member. Seoul has dismissed single membership as impractical.

Yesterday's talks were held at the opening session of prime ministerial-level discussions, the highest contacts between the two Koreas since the peninsula was divided at the end of World War II. A final session will be held today.

Special courts start trials of Bhutto's ministers

SPECIAL courts began trials of ministers in the government of Ms Benazir Bhutto, the former prime minister, yesterday, but one defendant accusing the caretaker Pakistani government of harassment, Reuter reports from Lahore.

Two one-judge courts revealed government charges against Mr Ghulam Ahmad Maneka, who had been minister for overseas Pakistanis, and Mr Ahmad Tariq Rahim, former parliamentary affairs minister.

The case against a third, Mr Jahangir Badar, former petroleum and natural resources minister, was put off until next Wednesday without charges being read.

Mr Maneka was charged with using his official position to obtain a bank loan illegally and Mr Rahim with influencing authorities to award a construction contract to a specific international company.

None of three was present in court and they were told to appear next Wednesday.

Mr Badar told reporters in the city of Karachi that he had done nothing wrong, adding: "The caretakers have started political harassment."

The trials are the first since President Ghulam Ishaq Khan dismissed Ms Bhutto's 20-month government on August 6, dissolved the National Assembly and four provincial assemblies and ordered fresh elections on October 24. Ms Bhutto has not yet been charged.

The caretaker administration set up 11 special courts to try politicians. Ms Bhutto describes them as kangaroo courts and says that members of her Pakistan People's Party will accept the jurisdiction of only the normal courts.

Members of a local human rights group attended yesterday's proceedings of the two special courts.

Australian finance assailed

MR JOHN BUTTON, the Australian Industry Minister, yesterday delivered a stinging attack on the country's investment managers, saying they were "accessories" to "economic vandalism" in the 1980s, AP-DJ reports from Canberra.

He told businessmen the capital markets were still performing poorly and this was an obstacle to economic progress. "We are still waiting for the change in culture that needs to go with financial deregulation" that took place in the 1980s. "Specifically, my concern is the behaviour of the institutions allocating investment funds and the thinness of development or venture capital markets."

"In the 1980s, many of those who decided where our scarce capital was invested were dazzled by our entrepreneurs who preferred debt-driven corporate strategies to equity in real activity."

Soft loans signal closer links with Peking

By Peter Ellingsen in Peking

AUSTRALIA has all but normalised relations with China by agreeing to a round of soft loans and resuming other close contacts, despite Peking's refusal to give ground on human rights.

About $17m in low-interest loans is to be given to China, even though funds for new projects were ruled out after Canberra's condemnation of last year's bloody suppression of the pro-democracy movement.

Dr Neal Blewett, the Australian Trade Minister, defended the decision in Peking yesterday, saying that because the new loans applied to projects in the pipeline before sanctions were imposed shortly after the Tiananmen Square crackdown last June, they did not breach existing guidelines.

"These proposals fall within Government policy on concessional finance loans to China under Cabinet's decision taken in January 1990," he said.

However, contracts for the four projects were not signed before the Government's cut-off date of July 13, 1989.

Dr Blewett, the first Australian minister to visit China since the June massacre, failed to win any concessions from Peking on trade questions. Chinese officials refused to provide guarantees on imports of Australian wool, which underwent a dramatic decline last year, any reduction on the duty China puts on wool, the concessional price paid for iron ore, or the use of inefficient Chinese ships to carry minerals from Australia.

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AMERICAN NEWS

Argentina imposes tough economic adjustment plan

By **John Barham** in Buenos Aires

MR Antonio Erman González, Argentine Economy Minister, has unveiled the fifth economic adjustment plan in as many months.

The new plan, like the four before it, is intended to slash public spending, stem resurgent inflation and ensure financial support from the International Monetary Fund.

Previous assaults on the public sector have petered out after a few months, undermining confidence in government policy and feeding inflation. As a result, Argentina has again overshot performance targets agreed with the IMF. The minister decided to act again, prices having risen by about 15 per cent in August, up from 11 per cent in July.

The package of 122 presidential decrees, announced late on Tuesday, complements tighter controls over the public sector, revealed last Friday. The latest measures feature conversion into ten-year bonds of some $8bn in government debts to private suppliers, further reductions in public sector wages and employment, and a *cap on social security spending.*

The decrees require government agencies to draw up within 30 days a timetable for shedding staff.

Unlike previous reform attempts, the government has published deadlines for meeting its own targets and created a committee to ensure the cuts are made. Also, the heads of each state organisation will be personally responsible for meeting cash limits.

The Central Bank also promised to impose a severe liquidity squeeze this month. Interest rates have already risen sharply, thus strengthening the value of the Argentine austral. Manufacturers, and exporters in particular, have protested against the austere policies because they will deepen Argentina's abiding *recession. Real per capita* incomes have not grown for 15 years.

A tight monetary policy is seen as necessary to reinforce the spending cuts, but nominal interest rates of almost 30 per cent a month make industrial investment next to impossible and the increasingly over-valued austral makes exports unprofitable.

Business and trade union leaders, with some government officials, have created an informal group to press Mr Gonzalez and President Carlos Menem to revive the economy.

Ontario may swing to left in election today

By **Bernard Simon** in Toronto

THE key Canadian province of Ontario may show an unexpected swing to the left in provincial elections to be held today, according to the latest *opinion polls.*

The Liberal Party government, headed by Mr David Peterson, which appeared to be cruising to an easy victory in the early stages of the campaign, is bracing itself for substantial losses to the socialist-inclined New Democratic Party.

The NDP seems to have only an outside chance of forming a majority government but recent polls suggest that it will take the largest number of seats in the 130-member legislature. The Liberals may try to retain office by forming a coalition with the more right-wing Progressive Conservatives.

NDP participation in the government would mean a less *hospitable climate* for business in the province, which is home to more than a third of Canada's population and accounts for some 53 per cent of national industrial output.

The party has said that it will ignore the US-Canada free trade agreement, in force since last year, impose a minimum corporation tax, sharply lift minimum wages, extend rent controls, and impose more stringent anti-pollution measures.

The Liberals, which control 93 seats in the legislature, called the election two years ahead of schedule in a bid to capitalise on their apparent popularity, before a slowing economy damaged their chances.

The sudden resurgence of the NDP, with only 19 seats, seems part of much frustration across Canada at political, social and economic problems which have emerged over the past few months.

High interest rates and, more recently, the Gulf crisis have heightened fears that Ontario is heading for recession.

The NDP, which relies heavily on organised labour for support, has put some of the blame for the slowdown on greater competition from low-cost US industries benefiting by the free trade pact.

Brazilian privatisation starts with airline

BRAZIL'S privatisation programme got under way this week with the sale of a controlling interest in VASP, the country's second largest airline, Christina Lamb reports from Brasilia.

The company has a dubious distinction: it was listed in Exame, the country's leading business magazine, as the most indebted company of the year, its debts of $750m being equivalent to some 117 per cent of its assets.

A 60 per cent share in the airline, owned by São Paulo State, was sold by auction for the dollar equivalent of $43.5m to Voe Canhedo, a consortium of 16 transport and mining companies, and a group of 3,500 of the airline's employees.

These, the only participants, bought the company at the privatisation commission's minimum price. Forty per cent remains with São Paulo.

The other group expected to participate, led by TAM, another Brazilian airline, pulled out, complaining that the company was paying interest of the equivalent of $20m a month on debt, compared to revenues of $35m. VASP, which owns 29 Boeing 737s and three Airbuses, had losses of $152m in the first half of this year. Losses last year were $51m.

The money paid will go into VASP's capital. Voe Canhedo will have to pay at least $38.7m by October to cover expired debts.

Mr Wagner Canhedo, consortium president, said he expected to pay $100m this month, but was hoping to renegotiate the $276m outstanding owed to the state-owned Banco do Brasil.

Digging up a terrible inheritance

Christina Lamb examines Brazilian human rights, past and present

President Fernando Collor de Mello, fearful of a social backlash at his austerity measures, has summoned Brazil's union and business leaders to discuss ways to soften the blow, Reuter reports from Brasilia.

Mr Collor asked them to join him in urgent talks today, almost three months after a first attempt to negotiate a national economic truce failed. The new effort comes amid *growing labour unrest, severe social tension,* and renewed business fears that the government's war on inflation may provoke a new wave of bankruptcies.

The president warned last week that tough new measures were on the way to renew the attack on inflation. A senior official was more explicit, speaking of a "second recessionary shock."

BRAZIL'S *past of military* repression has been awakened by the discovery on Tuesday night of a mass cemetery, believed to contain as many as 1,700 bodies. They are thought to comprise both criminals and political dissidents eliminated by the military regime which stepped down in 1985.

The discovery coincides with the release of a new report from Amnesty International, the human rights organisation, suggesting that rights abuses, concerning police killings of homeless children, are continuing.

The graveyard, at Perus, 70 kilometres east of São Paulo, was uncovered after a tip from the cemetery director, who *said he had been frightened to* speak out before. So far, 87 bodies have been uncovered, but investigators said the size of the trench indicated it might contain 1,700.

Two of the bodies uncovered have been identified as those of political prisoners who disappeared in the early 1970s. Other corpses show signs of having suffered violent death, suggesting the secret graveyard may contain victims of the military regime of President Emilio Médici. A total 138 people were reported as "disappeared" during his 1969-74 rule.

Mr Marco Barbosa, president of the Commission of Justice and Peace in São Paulo, called the graveyard "a crime against *human rights." The commission* is seeking a full investigation, and hopes that the new government of President Fernando Collor will be more effective. The Brazilian police has launched an inquiry into the gruesome discovery.

According to Mr Antonio Eustaquio, the graveyard administrator since 1977, the bodies were buried in the early 1970s. In 1979, the body of a left-wing intellectual who had disappeared in 1972 was found in the same place. Mr Eustaquio said: "Since then, I have suspected that other political prisoners were buried here."

Among Latin America's former dictatorships, the Brazilian military has escaped the *most lightly, with no inquiries* into past tortures or witch-hunts against officers responsible.

There was a mutual agreement in the early 1980s that the incoming civilian government and the military would forget about the past. An amnesty was given both to those in the opposition responsible for acts of terrorism and to officers accused of torture, according to Mr Alessandro Barros, a political scientist specialising in the military regimes.

The full extent of torture and killings is unknown. Mr Carlos Afonso, a political exile in 1970-80, says many former victims feel betrayed by the lack of action. "I find the cover-up amazing. *Even the organised* left seem keen to keep it in the past. I was tortured, and friends of mine were killed or disappeared. They were just students."

Mr Collor is keen to improve Brazil's appalling human rights record.

In June, a report by Amnesty International condemned the Brazilian justice system and detailed instances of police execution squads. Afterwards, President Collor gave assurances of action to an Amnesty delegation and said on television: "Brazil will never again be the subject of an Amnesty report."

An Amnesty report, out today on Brazil's 7m street *children, said: "Hundreds of* children have been gunned down by death squads, and many more beaten and tortured by on-duty police. The violence is continuing."

Energy tax urged by top Democrat

By **Anthony Harris**

CONGRESSMAN Leon Panetta, Democratic chairman of the House budget committee, yesterday came out in favour of an energy tax as part of a budget package. The US should address both its fiscal crisis and the energy crisis, he said.

However, he admitted this year's package was likely to fall short of the $50bn (£26.6bn) deficit reduction still officially favoured by the White House.

The Democrats are believed to be considering two versions of an energy tax, but have not until now urged them openly.

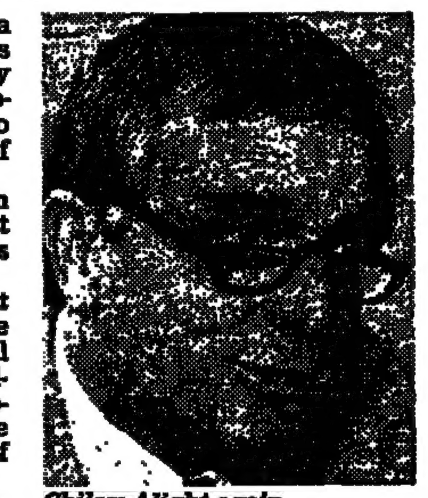
One proposed tax would be imposed only if the price of oil dropped from its current level, and might vary inversely with the price; or an escalating tax, which would apply a steadily rising incentive to economise, and would give increasing fiscal help in future years. Mr Panetta appears to favour this version.

"From a political point of view it's difficult to do when you've got an oil shock... But this country has got to conserve on oil."

He said he hoped the long-term target of a $500bn reduction over five years would stand.

Populist wins Florida governorship nomination

By **Anthony Harris** in Washington



Chiles: Alight again

MR LAWTON Chiles, a populist former senator, has won an impressive primary election victory for the Democratic Party's nomination tto run for the governorship of Florida in November.

If he wins the statehouse in Tallahassee, Mr Childs might upset President George Bush's southern strategy.

Florida is one of the most rapidly growing states in the US, and the next governor will be able to influence the boundaries of the extra House of Representatives constituencies the state will gain as a result of the national census this year.

Mr Chiles, a southern populist of the old school, served three terms in the US Senate before he retired two years ago, declaring himself "burned out". He has since required treatment for depression.

However, he won the primary by more than two to one over Congressman Bill Nelson, whose negative campaign concentrated on questioning the ex-senator's fitness for office.

Mr Childs was heavily outspent by Mr Nelson, but won by same methods which brought him to the Senate from obscurity as a back-country lawyer. He denounced "big money politics" (he limited his own supporters' contributions to $100 each) and lived up to his tag of "Walkin' Lawton" by travelling cheaply on the stump.

For November, Mr Childs is level in opinion polls with Governor Bob Martinez, a Republican who has problems with his anti-abortion views and past tax proposals.

The governor has denounced the Chiles campaign as "old-fashioned liberal bull". However, Chiles is fancied to win in November.

Remaining Cuban refugees leave embassy

THE 58-DAY saga, in which more than 50 Cubans sought to leave their country by taking refuge in European embassies has ended, Reuter reports from Havana.

The remaining five – out of 18 – Cubans who had taken refuge at the Spanish embassy in Havana since July walked out of the heavily guarded building late on Tuesday.

Mr Ignacio Ruperez, Spanish chargé d'affaires at the embassy, said all five had been given guarantees by the Cuban authorities that they would not suffer reprisals because of their asylum bids.

"The crisis is over but the quality of the relationship between Cuba and Spain has been seriously affected. We hope this relationship can be re-established," he said.

Spain recalled its ambassador to Madrid for consultations after Cuba had furiously rejected Spain's criticism of its handling of the asylum-seekers at European embassies.

About 30 other Cubans sought refuge in the embassies of Czechoslovakia, Italy, Switzerland and Belgium, saying they wanted to leave the island.

Cuban authorities refused to let any of the refugees to leave the country directly.

The asylum bids also set off a row between Cuba and its former ally Czechoslovakia, whose embassy was the scene of a drama on July 17, a group of refugees having fought with another and held five diplomats hostage for five hours.

WORLD TRADE NEWS

Argentina and Brazil in further integration step

By **John Barham** in Buenos Aires

THE BRAZILIAN and Argentine governments have announced a further step forward towards full economic integration of the two countries, superseding previous unworkable mechanisms first mooted in 1986.

Both countries intend to establish a common market by the beginning of 1995.

Uruguay and Paraguay yesterday sent delegations to Buenos Aires to negotiate their inclusion in the new trade organisation.

Nine bilateral working groups have been created to clear the way for progressive tariff reductions and to unify policy on items ranging from weights and measures to farm policy and transport.

However, officials recognised that although both governments are following broadly similar free market policies, harmonisation of economic policy will only be possible once Brazil and Argentina have stabilised their economies by cutting inflation and reshaping the public sectors.

The two governments have requested support from international organisations like the World Bank and the European Community.

Mr José Artur Denot de Medeiros, a member of the Brazilian delegation to talks on integration, said: "We are interested in technical assistance on how one goes about forming a common market and financial help to carry out technical and sectoral analyses."

A mechanism for settling disputes is to be set up under the aegis of the foreign trade departments in the foreign ministries of both countries.

Agriculture policy and the car industry remain obstacles to integration.

Protected Argentine sugar producers are firmly opposed to cheaper Brazilian imports. Mr Juan Schiaretti, the chief Argentine negotiator, said: "Farm policy is tricky everywhere and this is true in our case. But we are not going to let it hold up integration."

The car industry is a more formidable hurdle. A special committee has been formed to discuss ways to overcome resistance.

ITC rules on anti-dumping duties for Asian sweaters

THE US International Trade Commission (ITC) yesterday concluded a major import investigation with rulings that anti-dumping duties must be assessed on sweater imports from Taiwan, South Korea and Hong Kong, AP-DJ reports from Washington.

US imports of man-made fibre sweaters from the three Asian suppliers totalled nearly $1bn last year.

The Commerce Department ruled earlier that anti-dumping duties, in varying amounts, should be assessed on the imports from the three Asian countries in addition to regular US tariffs that average about 30 per cent.

Sweater imports from Taiwan, South Korea and Hong Kong also are subject to US import quotas under bilateral textile and apparel agreements with all three suppliers.

The ITC concluded that the three imports, sold in large volume to US retail store chains and other importers at "unfairly" low prices, have injured domestic sweater manufacturers, some of whom also have been importing the lower-priced apparel from Taiwan, South Korea and Hong Kong.

Taiwan and Japan sign tax agreement

Taiwan and Japan have signed a reciprocal agreement on income tax exemption for aviation and ocean shipping companies, AP-DJ reports from Taipei.

The accord was signed by Mr Mah Soo-lay, president of the Association of East Asian Relations, and Mr Norishige Hasegawa, president of the Interchange Association Taipei Office (Japan) in Taipei.

Mr Mah said the agreement would help create substantive economic ties between the two nations. Taiwan severed diplomatic ties with Japan in 1972, when Japan recognised the People's Republic of China.

Japan became the 17th country to sign such an accord with Taiwan. Taiwan has signed similar income tax exemption agreements with the US, Europe, South Korea, South Africa and Singapore. Japan was Taiwan's second largest trade partner, registering a surplus of $4.47bn during the first seven months with Taiwan.

Latin American forum warns on free-trade plan

CREATION of a free-trade area in the American hemisphere along the lines proposed by US President George Bush could trigger an investment boom in Latin America and the Caribbean, according to a report by the Latin American Economic System (Sela), Reuter reports from Caracas.

But it warned that Latin American countries had to ensure the initiative did not end up benefiting only the US.

The forum, based in Caracas and bringing together 26 nations in the region, said Mr Bush's Enterprise for the Americas initiative, launched in June, posed a formidable challenge to Latin America.

"The signing of a free-trade agreement between Latin American and Caribbean nations and the US could constitute a powerful attraction towards the region of local and US investors as well as investors from third countries.

"The challenge consists now in determining the way to guarantee that this initiative is not converted into an instrument of the US for obtaining outsize benefits, given the disparity of economic forces on either side," it said.

The report, the first detailed analysis to appear in Latin America on implications of the Bush plan, said a free-trade area could pull in investors as had happened with the European Community.

Foreign ministers from Sela's member nations are due to meet in Caracas at the end of this week to discuss the plan.

Uncertainty clouds Leipzig Fair's future

David Goodhart finds the 825-year-old showcase for east-west trade is losing its traditional support

THE Leipzig Trade Fair – *the* twice yearly gathering place for east-west trade – is, like so much else in East Germany, facing an uncertain future.

An increasing number of analysts and businessmen believe the 825-year-old fair is unlikely to celebrate its 830th birthday, or certainly not in anything like its present form.

The spring and autumn fairs have, for more than three decades, been host to captive delegations of western businessmen who had few other chances of meeting trade officials and company representatives from East Germany and other east European countries.

The fairs were both a propaganda showcase of East Bloc industrial excellence and an important business venue for the Bloc itself.

Now Leipzig stands to lose both its western businessmen – who enjoy much freer access throughout the old East Bloc, especially East Germany itself – and its former comrades who do not want to pay western trade fair prices in hard currency to meet the same trade officials or western businessmen to whom they now have open access.

The decline is already evident from the current fair, which ends tomorrow. After the success of the spring fair – the first since the collapse of the old East German regime – which had 9,000 exhibitors, the autumn fair can boast only 4,500 stands, well down on the 6,000 expected.

Western, mainly West German, exhibitors are still flocking to Leipzig but many East German companies and other exhibitors from the former East Bloc have pulled out, due in part to economic difficulties.

One official from the Czechoslovakian Trade Ministry complained that the cost of exhibiting was now three times higher, and it needed to be paid for in hard currency. He added that with such prices it would be better to go to the Hannover Industrial Fair, where at least the telephones function.

West German businessmen are also starting to wonder whether they still need to struggle with the discomforts of Leipzig with its desperate lack of decent hotels and restaurants, parking space and efficient telecommunications, now that the political barriers to communication have fallen.

Even some of the surviving East German companies, such as the heavy machinery group Sket AG, have said they plan to desert Leipzig in favour of Hannover.

Mr Hans Peter Stihl, head of the West German Chambers of Commerce, says it is self-evident that Leipzig cannot currently compete with Hannover – the only comparable general industrial fair – or the other specialist industrial fairs spread about the West German cities of Düsseldorf, Cologne, Frankfurt, Munich and West Berlin.

Hannover has invested DM550m (£181.5m) over the last five years in its modern and efficient site, compared with 100m East Marks invested by Leipzig over the last four years in its depressing halls.

Mr Siegfried Fischer, head of the Leipzig Fair, says investment was ignored by his superiors in East Berlin who siphoned off between 30m and 35m Valuta Marks per year. Income from the two fairs in 1989 was about 150m East Marks.

The Leipzig Fair company, and its assets, now belongs to the Treuhand, the trust body charged with privatising East German industry. Mr Fischer says the state of Saxony and the City of Leipzig will between them take a 49 per cent stake.

However Mr Lehmann-Grube, the mayor of Leipzig, admits that he now has no money to spare for the investment needed if the fair is to be made competitive.

However there seems to be a consensus, at least among West Germans, that Leipzig will have to specialise to survive. This is easier said than done as all the important industrial sectors already have their own established fairs in West Germany.

But as Mr Fischer points out, the idea of becoming a "regional" fair in the centre of East Germany's industrial heartland is nothing to be ashamed of. And the need for an east-west business gathering point is *not going to disappear* completely after the east European revolutions.

Brussels offers sweetener to E European traders

German unification will disrupt economic links with the east, writes David Buchan

THE conversion of this year's Leipzig trade fair into more of a western, than an east-west, event has borne out fears that German *unification is causing a sharp contraction* in Soviet and east European trade with East Germany.

Alive to the danger that a collapse could undermine its strategy to aid the east, the European Commission – which takes over responsibility for East Germany's external trade policy on October 3 with the incorporation of that country into a united Germany – has already suggested a palliative to worried traders in the east.

Brussels is proposing to leave open for such traders a temporary hole in the Community External Tariff (CET) which will ring the former East German territory from October 3. If approved by EC governments, the plan would allow Soviet and east European industrial goods to enter the eastern part of Germany free of the CET at least until end-1991.

The Soviet Union has by far the biggest problem. It has accounted for more than half of Comecon trade with East Germany, which in turn has accounted for two-thirds of East German trade with the world.

Overall, the price advantage to Soviet exporters to East Germany of being able to side-step the CET for a while will be minuscule.

Soviet exports to East Germany contain almost the same high proportion of energy and raw materials – which bear little or no EC tariff – as its shipments to the existing Community. Thus the *average duty on Soviet exports to the* EC is only 2.3 per cent, which could soon come down to 1.7 per cent if Brussels maintains its current tariff offer in the Gatt Uruguay Round.

However, the Soviet Union has exported a higher share of machinery to East Germany than to the EC, and *Community duties* on these goods run at 10 to 15 per cent.

The CET exemption that Brussels is proposing for goods from the Soviet Union and other east European countries, including Yugoslavia, is designed to try to maintain these countries' traditional trade flows with eastern Germany.

Any increase in their shipments next year, highly implausible though that might be, would bear the ordinary CET. And the exemption is only for goods circulating on former East German territory.

The flow of goods from east to west inside a united Germany will in any case be controlled by a system of labelling. This is to prevent goods that do not meet EC environmental and safety standards circulating freely around the rest of the Community, as East German manufacturers are given time (in most cases until end-1992) to gear up to EC norms.

EAST GERMANY
Comecon Trade 1990*

Trade partners	TRM**	%
USSR	13.20	55.4
Czechoslovakia	2.90	12.2
Poland	2.50	10.5
Hungary	2.00	8.4
Bulgaria	1.40	5.8
Romania	1.10	4.6
Cuba	.57	2.4
Vietnam	.14	0.6
Mongolia	.03	0.1
Total	23.84	100

* Estimates based on annual trade protocols for 1990
** Transferable Roubles
(Comecon trade represents about 66 per cent of E Germany's trade)

Source: European Commission

But, says one EC official, "a sharp decrease in Comecon trade will still occur because of market forces that have nothing to do with East Germany adopting our tariffs. All we want to do is not to add extra strain to an already difficult situation for the Soviets and the East Europeans."

Causes for the fall-off in trade with the east are East Germany's conversion into a hard currency country in July, the new focus of its businessmen on western markets, upheaval and soaring unemployment in the East German economy, and adjustment problems besetting countries to the east.

Commission officials stoutly resist what they see as a growing tendency of the reforming Comecon countries to blame much of their general economic woes on German unification.

At the same time, however, a knock-on effect of German unification may be to push the EC into more generous concessions for the east. Brussels already plans to extend to Czechoslovakia, Bulgaria and Yugoslavia next year the tariff benefits that Poland, Hungary and to some extent Romania get under the Generalised System of Preferences (GSP).

It is harder to justify giving a military superpower like the Soviet Union the GSP tariff status that is normally awarded *to developing countries.*

But the Commission has pledged to produce a comprehensive aid programme for the Soviet Union within the next month.

Nothing that Brussels has in mind could, however, ensure eastern countries their share of the East German market.

A recent Commission study suggests "unified Germany and/or individual East German enterprises might therefore find themselves in the position of having to guarantee the sales of certain [Comecon] products" for a time. But any German subsidies to help Comecon traders would need Brussels' approval, the Commission warns.

Soviet reform plan indicts 70 years of Communist rule

By Quentin Peel and Anthony Robinson in Moscow

ECONOMIC reform plans for the Soviet Union drafted by the closest advisers of President Mikhail Gorbachev and Mr Boris Yeltsin, the Russian leader, represent a devastating indictment of more than 70 years of Communist Party rule.

The programme, summarised in a full-page article in Izvestia, the government newspaper, yesterday, seeks to reinstate private property as the very foundation of Soviet society.

It calls for absolute freedom of economic activity for all Soviet citizens, and massive privatisation of state ownership throughout the economy.

The document was drafted over the past four weeks under the chairmanship of the economist Professor Stanislav Shatalin, one of Mr Gorbachev's closest confidants, and a full member of the presidential council.

Its point of departure is the conviction that economic reforms must offer Soviet citizens the real prospect of a better life, whereas Soviet government plans to date have been based on "the rich government versus the poor people."

In the key phrase which rejects the cornerstone of Marxist philosophy, adopted from Proudhon's famous dictum "property is theft," the authors say: "Property in the hands of each individual is a guarantee of the stability of society, and one of the main *factors for preventing social* and national cataclysm.

"A person who has his own house and his own plot of land ... a person who owns *shares and other financial* instruments, objectively is interested in the stability of the society, and in social and national harmony."

The plan makes clear that, in principle, state property "cannot and must not just be given away," but it provides for the free transfer of ownership of small apartments and private plots.

It says that mass privatisation must not concentrate riches in the hands of the few, but through leasehold, loans and other means, involve "the *widest possible layers of society*."

The plan calls for what amounts to a Domesday Book type census and inventory of all *state and public property* prior to privatisation. It devolves economic sovereignty to the republics, which will also be responsible for ensuring the maintenance of a single overall market for the country.

As for the freedom of economic activity for individuals, the plan says: "Nobody is imposing on anybody the type of economic activity to follow. Everybody *should be free to* choose for himself his own role: to be an entrepreneur, to work for the government, or to work as a manager in a private company ... Freedom of choice is at the basis of personal freedom."

The "2 plus 4" talks to draft a treaty on the international aspects of German unification have run into difficulty over the issue of Soviet troop withdrawal, diplomats said yesterday, Reuter reports from East Berlin.

Senior officials said the sensitive status of the nearly 370,000 Soviet troops in East Germany, to be withdrawn over the next four years while western garrisons leave Berlin, was holding up completion of the talks.

"It is important for the Soviets to be seen to be releasing Germany into independence, rather than being booted out by the Germans," one diplomat said.

A border sign marks the limits of an Austrian military patrol along the frontier with Hungary and Czechoslovakia. Fifteen hundred extra troops have been sent by Vienna to help stem the tide of illegal immigration

Austria draws the line on immigrants from the east

By Nicholas Denton in Nickelsdorf, on the Austro-Hungarian border

THE 1,500 Austrian soldiers sent yesterday to patrol the country's eastern borders were a grim reminder to the travel-hungry peoples of eastern Europe that frontier controls between east and west still exist.

But the clampdown on illegal immigrants trying to escape economic misery at home and find work in affluent Austria failed to dampen the optimism of some of the Romanians who yesterday reckoned they *could make it across the* border.

Petre is one of the lucky ones, having succeeded in crossing several times already. He is a young car mechanic from Sibiu, an 18th century city in the heart of Romania and once the centre of the ethnic German minority.

He had worked in Hungary in the black economy before managing to obtain an Austrian transit visa. Once across the border, he joined up with a friend and both then worked illegally in a carpentry shop in Vienna. There he earned about $1,000 and was given a roof over his head, returning to Hungary from time to time to elude the Austrian authorities.

Other Romanians are less fortunate. Yesterday border guards checked all the Romanian Dacias, the nearest thing to the East German Trabant. They opened the cars' boots, searched the baggage *and went through documents*. Romanians watched with envy as the smart cars with German, French, Italian and Dutch number plates were waved through.

About a quarter of all the Romanian cars are turned back for lack of visas, which Romanians have needed since March. Those without often attempt the passage at night when, they hope, guards will be sleeping and the light too dim to make out number plates clearly. Those who fail often try to cross illegally over fields a few miles from the road.

The wave of illegal immigrants is nothing new to Mr Johann Deimel, an Austrian border guard. He reckons 100-150 Romanians a day try to cross, and often illegally. "We manage to catch 10-15 per cent at most," he said.

Those caught were returned to Hungary. "The Hungarians pick them up and put them on the train. Twenty kilometres later they get out and try again to get to Austria: two, three times.".

The new Austrian regulations are bound to upset Hungary. It does not want an influx of Romanians any more than the Austrians do. Hundreds of ethnic Hungarians and Romanians are already seeking refugee status in Hungary.

● Mr Ion Iliescu, the Romanian President, said yesterday that a boycott by the west against his country had seriously damaged Romania's economy, Reuter adds from Belgrade.

"At this moment we have serious problems because international banks are refusing us credits," he said in Belgrade, before ending a three-day visit to Yugoslavia – his first foreign trip since becoming President last June.

Western countries have shunned Mr Iliescu, complaining of human rights abuses in Romania. The US froze aid plans in protest in June after miners summoned to Bucharest by Mr Iliescu crushed anti-government unrest.

Bonn cabinet posts for E Germans

CHANCELLOR Helmut Kohl will bring four prominent East German politicians into the all-German government to be formed after unification on October 3, writes David Marsh in Bonn.

The new cabinet members, who are likely to take office as ministers without portfolio, will be headed by Mr Lothar de Maizière, the East German Prime Minister. Ms Sabine Bergmann-Pohl, president of the East German parliament, and Mr Günther Krause, state secretary in charge of unity negotiations, will also probably be given jobs. All three are Christian Democrats.

Mr Rainer Ortleb, deputy leader of the all-German Free Democratic Party, junior partner in the Bonn coalition, is also likely to receive a cabinet post.

Meanwhile, unemployment in East Germany rose to 361,286 in August, up a third on July. The number on short time working more than doubled to 1.44m from 656,000 in July.

Polish jobless

The number of jobless in Poland has risen to more than *800,000, topping* 6 per cent of the workforce for the first time since the country embarked on the free market economy, Reuter reports from Warsaw.

After a monthly leap of 121,000, there were 820,283 people or 6.1 per cent of the work force registered as unemployed on August 31, a Labour Ministry spokesman said yesterday.

Yugoslav expulsions

Four human rights officials were yesterday expelled from Yugoslavia in what may be the beginning of a concerted anti-western campaign by the republic of Serbia, writes Laura Silber in Belgrade.

Police detained officials of the Helsinki Federation, a human rights monitoring group, outside the town of Prizren in Kosovo.

They were accused of distributing hostile leaflets, ordered to leave within 48 hours and told they could not return to Yugoslavia for three years.

Their expulsion coincides with attacks on the US in the Serbian media.

Britain braced for an oil price 'shockette'

The UK economy is less vulnerable than most to Gulf events, writes **Rachel Johnson**

THE GULF CRISIS: EUROPEAN ECONOMIC FALLOUT

BRITAIN

THE SHAPE of the world oil market leaves the export-driven UK economy less affected than most by the crisis in the Gulf. Analysts are talking coyly of an oil price "shockette" rather than the long sharp shocks which buffeted the world economy in 1974 and 1979.

Uncertainty, however, is still the main theme in economic assessments of the impact of higher oil prices on the UK economy, which was weakening even before it was hit by the inflationary blow of an oil price rise at the beginning of *last month*.

Oil prices have risen from $16 a barrel in pre-crisis July to $23.75 the day after Iraq invaded Kuwait and have since hit a high of $32. Yesterday, they were at around $29.50 a barrel.

However, the dynamics of the oil market have changed, meaning these prices are still looking low. In real terms, yesterday's levels were still two-fifths lower than their 1985 levels in sterling, yen, D-Mark and dollar terms.

Meanwhile, sterling has chased oil prices up on the international perception that it is still a petro-currency. This is partly a psychological phenomenon; UK oil production, in volume terms as a percentage of gross domestic product, has been falling steadily since 1984 to just about 1 per cent. Sterling, none the less, has been the hot favourite on the foreign exchanges – apart from the slump prompted last Friday by speculation that the authorities wanted to take the pound *into the exchange rate mechanism* (ERM) over the weekend with an interest rate cut.

It is thus in very volatile circumstances, both in the Gulf and in the markets, that analysts deliver their rough scenarios *for the UK economy*.

Most point out that the Gulf crisis has cast further confusion over sterling joining the ERM. The potential strain between *petro-sterling* and existing ERM currencies could delay entry, especially while the markets are so nervous. Furthermore, to wait 11 years and then join in the throes of a crisis would not smack of sound economic *management*.

Yet the UK economy is fairly well-insulated, even though its inflation rate is already high, at nearly 10 per cent. This is because the UK and Canada are the only net energy exporters in the Group of Seven leading industrial countries. Self-sufficiency gives the UK, the world's ninth largest oil exporter, more resilience than oil importers to gyrations in the oil price.

Also, petrol price rises replenish government coffers with a bigger tax take. A $10 *rise in oil prices* will raise government revenues by £1.5bn, according to some estimates.

Within the current account, the visible oil trade balance will improve. (This could be offset by a deterioration in the invisible balance due to a rise in profits abroad by foreign oil companies operating in the North Sea.)

On the trade side, the UK *forsakes about* £4.6bn worth of exports to the Gulf – about 5 per cent of its total exports. "Economic sanctions, if fully effective, would reduce UK exports by £60m a month," say stockbrokers James Capel.

The negative impact of the crisis will be in the form of lower growth and higher prices: inflation plus recession. Most economists have reduced their forecast for GDP growth in 1991 by a quarter of a percentage point and increased their forecasts for inflation by half a point.

But *should sterling* keep its strength during the crisis, the inflationary impulse of the oil price rise should be curbed through lower import prices *and a squeeze on profit margins*. This could rule out an interest rate rise to curb the inflationary threat.

This is the last in a series of articles about the impact of the oil price rise on leading European economies. Previous articles appeared on August 29,30,31, September 4,5.

Economic viewpoint, Page 24

EC given reassurance on chip industry's problems

By Lucy Kellaway in Brussels

THE *European Commission* must tackle the crisis in Europe's information technology industry by finding ways to boost demand, Mr Maria *Filippo Pandolfi*, commissioner for research, said yesterday.

During a Commission debate on problems facing European semiconductor producers, Mr Pandolfi sought to reassure his colleagues that the withdrawal of Philips, the Dutch electronics group, from a project studying static memory chips would have minimal effect on the EC's overall research effort.

The Joint European Submicron Silicon Initiative (Jessi) covers a wide range *of information* technology research, of which static memory chips make up only 6 per cent. The programme will cost $5bn (£2.6bn) *over* seven years.

"While it is certainly not good news, it is far from meaning the collapse of the Jessi programme," Mr Pandolfi said of Philips' decision.

"We are more concerned with tackling the underlying reasons for the crisis of the European information technology industry, rather than individual cases."

The *Commission* is due to agree a new plan for the chip industry in the next *few weeks*, which will be put to member states at the end of the month. Discussion so far has proved *difficult, and attempts to help* the industry have met opposition from Commission members anxious about protectionist policies.

The semiconductor industry is seen as particularly important because of its influence on the electronics, telecommunications and computer industries.

The Commission is concerned that European chip production accounts for just 10 per cent of the world market, compared with 52 per cent for Japan and 37 per cent for the US. It is also worried that European users are becoming *over-dependent* on foreign suppliers.

● ICL, the British computer company being taken over by Fujitsu of Japan, could remain a member of Jessi if the Japanese authorities reciprocate in some way, *Mr Raimondo Paletto*, the programme's president, said yesterday, writes Michael Skapinker.

Jessi might ask for European *companies* to participate in a Japanese project.

Mr Paletto said that *foreign*-owned companies which showed sufficient commitment to Europe could participate in Jessi.

ICL does not manufacture semiconductors, but gives advice from *its perspective* as a chip user.

France may push energy saving

By William Dawkins in Paris

FRANCE'S 1991 budget, to be presented next week, could introduce a range of tax and other measures to encourage energy saving in the face of the Gulf crisis, Mr Roger Fauroux, the Industry Minister, said yesterday.

While the Government was *not making a big readjustment* to its September 12 budget plans, it wants to respond early to the rise in oil prices, he told a parliamentary committee. "We must prepare countermeasures," he said.

The Government is considering tax incentives for investments in energy saving equipment by companies and individuals, partial deductions on VAT on domestic fuel oil, plus a publicity drive to *enforce* speed limits and to encourage private and corporate property owners to cut back on central heating.

France was relatively well protected by its high dependence on nuclear energy and *good* record on industrial energy saving, he said. Its 65m tonnes petroleum equivalent (TPE) annual nuclear production compared with Kuwait's entire 75m tonne annual oil output.

Mr Fauroux estimated that a $25 per barrel (pb) oil price would add FFr32bn (£3.13bn) to next year's trade deficit, on top of the FFr44bn deficit recorded in 1989.

If the average oil price held *at that level through the* second half, France's energy bill would rise by FFr12bn on top of last year's FFr63bn energy spending, he said.

This would add between 0.5 and 1 percentage points to the inflation rate and reduce growth by the same amount next year. Insée, the state economic institute, has already downgraded its growth forecast for this year from 3.2 per cent to 2.6 per cent and lifted its end of year inflation figure by half a point to 3.6 per cent.

Mr Fauroux said that the chemicals industry, which is largely *state-owned*, seemed likely to be hit hardest by higher oil prices, though Rhône-Poulenc's diversification into fine chemicals and pharmaceuticals left it relatively well placed.

If the oil price held at $25pb, the French chemicals industry's energy costs would increase by 20 per cent next year from 1989 levels, rising to 33 per cent at $30pb. The same figures for French industry as a whole were 4.5 per cent and 7.4 per cent.

Lisbon sets new sights for next year

By Patrick Blum in Lisbon

THE PORTUGUESE Government, already wrestling with an overheating economy and a recalcitrant inflation rate, is having to rethink its economic targets for 1991 because of the Gulf crisis.

For a small country trying to modernise and catch up with its European partners, the *threat of a further inflationary* boost from higher energy prices is particularly unwelcome. Portugal imports around 83 per cent of its energy and is highly dependent on oil, which in 1988 represented about 67 per cent of energy consumption. Since 1985, oil imports have grown by more than 50 per cent, reflecting the country's accelerated growth in the second half of the decade.

Economists believe the Government will have to adjust its forthcoming budget to take account of the impact of oil prices on inflation and the current account balance. The Government ordered rises in fuel prices ranging from 5 per cent *to 8 per cent* this week, following similar increases decreed *less than two months* ago, before the Gulf crisis erupted.

Its target of bringing inflation – now running at close to 13 per cent on an average annual basis – to around 10 per cent this year is certain to be exceeded.

● Romanian factories could be shut down by power cuts this winter so energy can be diverted to stop people freezing *in their* homes, a senior Energy Department official said yesterday, Reuter reports from Bucharest.

He said contingency plans would be made at the end of September identifying which areas of industry to ration if inadequate fuel supplies or failures at antiquated power stations hit electricity output.

● Hungary has drawn up emergency plans to restrict energy use in case oil supplies from the Soviet Union drop further or dry up completely, the Trade and Industry Ministry said yesterday, Reuter reports *from* Budapest.

The official MTI news agency said the brunt of restrictions on consumption would fall on heavy industries and that private consumers would be the last to be affected by any squeeze.

● The Polish Government has cancelled construction of its only nuclear power plant, a Soviet-designed reactor that raised cost and safety concerns, *the official news agency* reported yesterday, AP reports from Warsaw.

UK NEWS

FARNBOROUGH AIR SHOW

Boeing confirms Japanese interest in new airliner

By Paul Betts, Aerospace Correspondent

SENIOR executives of Boeing, the US aircraft manufacturer, yesterday confirmed that Japan could play a leading role in the launch of the 767X, a new wide-bodied twin-engined airliner, *being developed at a* cost of up to £5bn.

Boeing officials at Farnborough, Britain's commercial air show, said the Japanese were showing interest as launch customers.

All Nippon Airways, (ANA) the Japanese carrier, is now seen by many airline industry experts as a possible launch customer for the new Boeing aircraft, which will compete with the Airbus A330 and the MacDonnell Douglas MD11 tri-jet.

The Japanese carrier is expected to take a decision on a big aircraft fleet expansion programme in the coming months. It has shown interest in the new Boeing aircraft and, should it commit itself to the 767X, it could provide the necessary catalyst for Boeing to launch a programme.

Up to now, United Airlines (UAL) of the US appeared as the most likely candidate to become the launch customer of the new Boeing aircraft, but that has been made less likely by UAL's difficulties over its management buy-out and *growing uncertainties in the* US airline industry caused by the Gulf crisis and a weakening US economy.

Boeing executives said it would not be the first time one of the company's commercial aircraft programme was launched following initial orders by foreign carriers. Lufthansa was the original launch customer of the 737 programme and British Airways was the joint launch customer with Eastern Airlines of the US of the Boeing 757. BA is also a potential customer of the 767X.

Three Japanese groups, Kawasaki, Fuji and Mitsubishi are planning to take a 15-20 per cent risk-sharing interest in the programme. Boeing is discussing participation with other international aerospace companies. American Airlines and Delta Airlines are both understood to be interested in the new aircraft.

Sardinian airline buys four BAe aircraft

By Haig Simonian in Milan

BRITISH Aerospace, the UK aircraft and defence manufacturer, has sold four BAe 146/200 commuter jets to Alisarda, the private-sector Italian airline controlled by the Aga Khan.

The Sardinia-based carrier has an option on a further four *BAe 146s, either of the same* type or of the larger BAe 146/300 variant.

British Aèrospace will lease Alisarda four aircraft from next April in order to bridge the gap until the first deliveries in 1993. As a result, the airline will be able to proceed with the planned expansion of its short-range international routes.

Mr Franco Trivi, Alisarda's managing director, said it had chosen the quiet and environmentally friendly BAe 146 in view of its plans to develop flights out of Florence.

Florence airport is extremely close to the city centre and has a short runway, which severely handicaps profitable use of other similar-sized jets, he said. Alisarda plans to use the BAe 146 aircraft for flights from Florence to a number of major European cities.

Cancelled US aircraft opens door for European project

THE US NAVY'S decision to cancel the Lockheed P-7A maritime patrol aircraft programme is likely to boost the chances of broad European collaboration to develop a new naval patrol aircraft, writes Paul Betts.

Mr Serge Dassault, chairman of the French Dassault military aircraft and business jet group, said European aerospace groups were again looking seriously at the joint development of a new maritime patrol aircraft.

Initial discussions on the development of such an aircraft had been handicapped by the West German and the UK interests in the US Lockheed naval patrol aircraft.

Mr Dassault, however, said the US decision to cancel the P-7A project had reinforced the chances of European co-operation for the development of a European naval patrol aircraft, nicknamed the Europatrol.

Dassault had already invited other European aerospace companies to discuss the project and was encouraging the governments of France, Germany, the UK, Italy, Belgium and Spain to consider a new European collaboration venture in this field to meet the needs of the respective countries' naval patrol requirements.

Dassault currently produces the Atlantique 2 long-range maritime patrol aircraft.

Dassault officials also said yesterday that the French Rafale fighter aircraft project was going ahead on target. Rafale is the French rival to the formation European Fighter Aircraft programme.

Dassault is due to deliver the first Rafale production aircraft to the French armed forces in 1996.

Rolls-Royce poised to win order from Garuda

By Paul Betts

ROLLS-ROYCE, the UK aero-engine group, is poised to win an engine order worth about $100m from Garuda, the Indonesian flag carrier, to power the airline's fleet of Airbus A-330 wide-bodied aircraft.

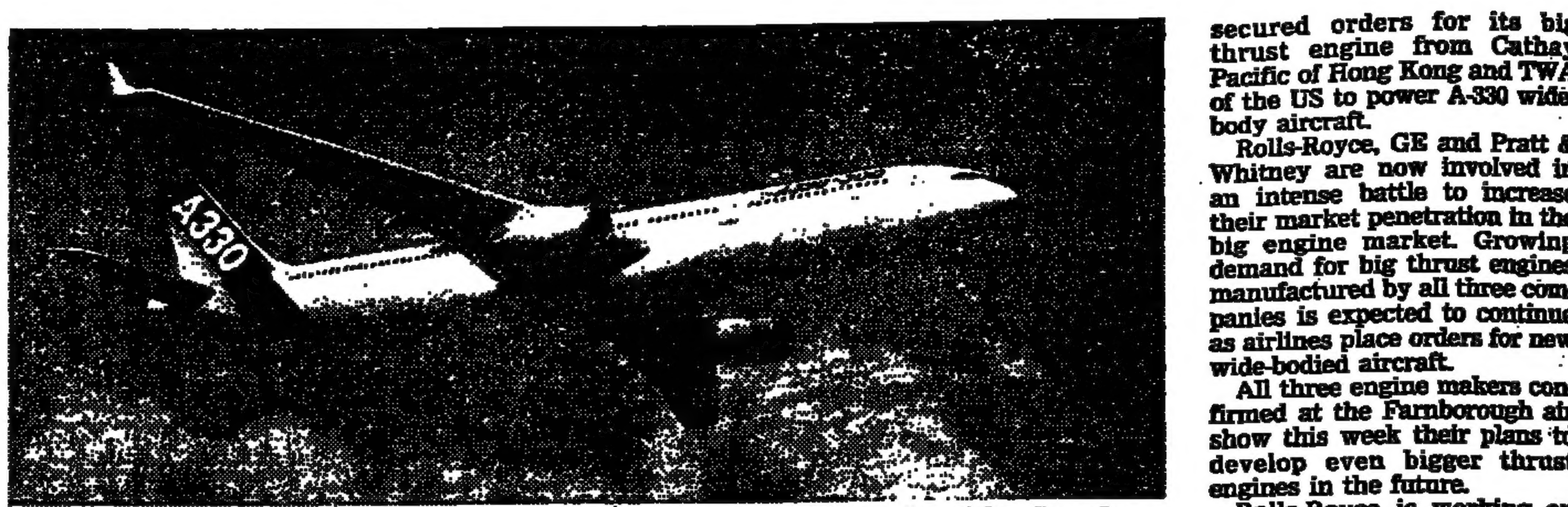
Garuda has ordered nine twin-engine A-330s from the European Airbus consortium for delivery in 1996 and 1997, which will be equipped with the powerful Rolls-Royce Trent engine.

The Garuda deal is a significant breakthrough for Rolls-Royce in the fast-growing Asia-Pacific commercial aircraft market. Garuda had been expected to opt for the US Pratt & Whitney PW4000 engines.

The airline appears to have been told by the Indonesian Government to select the Rolls-Royce engine. The Government in Jakarta is also understood to have told Garuda to opt for US General Electric engines to power future Boeing 747 purchases.

The Government's decision appears to reflect the close ties developed by Rolls-Royce and GE have with the Indonesian aerospace and aero-engine industry. Indonesia has long had big ambitions to develop a fully-fledged aircraft manufacturing industry.

The deal is also important for Rolls-Royce because it will help expand the customer base for the UK group's Trent engine. Rolls-Royce has secured orders for its big thrust engine from Cathay Pacific of Hong Kong and TWA of the US to power A-330 wide-body aircraft.



Made to order: an artist's impression of the twin-engined A330 ordered by Garuda

Rolls-Royce, GE and Pratt & Whitney are now involved in an intense battle to increase their market penetration in the big engine market. Growing demand for big thrust engines manufactured by all three companies is expected to continue as airlines place orders for new wide-bodied aircraft.

All three engine makers confirmed at the Farnborough air show this week their plans to develop even bigger thrust engines in the future.

Rolls-Royce is working on more powerful versions of the Trent; Pratt & Whitney is developing a growth version of its PW4000 engine family; and GE is working on a $1bn-$1.5bn new engine programme, the GE90.

BRITAIN IN BRIEF

Soccer clubs fail to score profitably

The vast majority of British football clubs are still unprofitable according to a survey by Jordans, the research group, which is due to be published shortly.

Only 24 of the 128 English and Scottish clubs on which Jordans has figures, made a profit in 1988 and only five achieved turnover of more than £6m. A previous survey by Jordans in 1987 estimated that 80 out of the 92 English League clubs were technically insolvent.

Jordans notes that the gap between the élite clubs in the First Division and the smaller clubs in the lower tiers is widening. Arsenal was the most profitable club in 1988, making £1.65m pre-tax, while Manchester United had the highest turnover – £7.6m. Dundee appeared to be the club with the highest margins, earnings profits of £420,000 on turnover of £926,000. Queens Park Rangers lost £2.6m on turnover of only £2.3m.

Motor trade deficit falls

THE UK motor industry trade deficit fell by 13.1 per cent to £2.97bn in the first six months of the year from £3.42bn a year ago, according to figures released by the Society of Motor Manufacturers and Traders.

The motor industry is one of the biggest factors behind the overall UK trade deficit, but its contribution has begun to fall in the last nine months, largely as a result of the recession in the UK new vehicle market.

There was a 3 per cent rise in the value of car imports to £3.93bn; a 34.5 per cent fall in the value of commercial vehicles imports to £550m; and a 9 per cent rise in components imports to £2.82bn.

Sumitomo gets £220m stake

The agreement by Sumitomo Life Insurance Company of Japan to pay £220m for a 52.5 per cent stake in the new headquarters of US bank J P Morgan is believed to be the second largest investment ever made in the London property market. It is outstripped only by the £250m purchase of Landsdowne House in Berkeley Square in May.

The new office complex, at 60 Victoria Embankment, near Blackfriar's Bridge on the north bank of the Thames, will be completed next year.

J P Morgan bought the site, which was previously occupied by the City of London schools, in 1987. It expects to spend a total of $720m (£383m) on acquisition, construction and fitting-out costs.

JP Morgan said that the deal presented an attractive financing alternative. It did a similar deal over its New York headquarters in 1988, when Dai-Ichi Mutual Life paid $400m for a 49 per cent stake.

Extension plan for tube line

Developers planning a £1bn urban regeneration scheme in the Bishopsgate area of east London have offered £50m towards the estimated £121m net cost of extending the East London underground line through the site.

The offer will be welcomed by the Government as a boost to its efforts to attract private-sector contributions to the cost of extending and improving London's underground system and other transport projects.

These efforts have so far had limited success. The most notable achievement has been a £400m contribution from a consortium led by Olympia & York, the main developer at Canary Wharf in London's Docklands, towards the estimated £1bn cost of extending the Jubilee Line eastwards to Docklands and Stratford.

House market remains slow

The depression in the UK housing market continued to deepen in August, even though the prices for new houses rose slightly, according to figures published yesterday by Halifax Building Society.

The Halifax House Price Index suggests that the general level of house prices now stands 1.8 per cent lower than it did a year ago.

House price levels have fallen slightly since July when they were 1.7 per cent down on the previous year. However house prices as a whole fell by only 0.4 per cent in August after adjustment for seasonal figures, compared to a 0.6 per cent fall in July.

August was the seventh successive month in which house prices have fallen, dashing hopes of a recovery in the housing market by the end of the year.

Glass industry expansion

Sheffield's growing importance as a centre for the glass industry was underlined with the announcement that furnace-manufacturer King, Taudevin and Gregson (KTG) is to relocate its electric furnace division from Southend, Essex.

The move will create one hundred jobs, though around thirty are expected to be taken by relocating staff. The company also announced that it is to spend £3.2m on a new headquarters in the city.

The company exports almost 70 per cent of its production and has an international order book worth £30m.

Pan Am jet in emergency

A Pan Am jumbo jet with 400 people aboard made an emergency landing at London's Heathrow airport after a wing panel fell off, an airline spokesman said. "The landing was normal and the captain didn't experience any handling problems," he said.

Bridge for sale

A historic toll bridge dating to the 18th century is on sale in western England. The new owner will be able to collect 100,000 tolls a year tax free. The crossing over the River Wye in Herefordshire, is being sold with a 200-year-old cottage. Offers of more than £200,000 are invited for the bridge.

UK NEWS

Police to question Soviet miners over strike funds

By Mike Smith

FRAUD Squad detectives will today question four Soviet miners about money collected in their country during the 1984-5 UK pits strike.

The four members of the breakaway Soviet Democratic Labour Movement are on a fact-finding trip of Britain.

The Russian miners yesterday condemned as a "scandal" and a "deep outrage" the fact that the £1.5m they collected is still being held by the Paris-based International Miners' Organisation, of which Mr Arthur Scargill is president, more than five years after the NUM dispute ended.

Attempts by the NUM to gain possession of the disputed funds were thrown into further confusion yesterday when Mr Alain Simon, secretary general of the IMO, insisted that the cash was donated for international purposes and that "the fund is not for the NUM".

Prior to yesterday, the NUM's four man team leading the fight to regain the disputed cash had hoped to win the IMO's consent for transfer of

Refusal: Alain Simon

the funds next Monday when they will visit the organisation's Paris headquarters along with Mr Scargill, the NUM leader, and Mr Peter Heathfield, union secretary.

However, Mr Simon said yesterday that nothing could be decided until a September 18 meeting of the IMO executive committee. He refused to accept that the NUM had proof that it rightly owned the money and said he had evidence to the contrary.

Mr Simon added that much of the disputed money had already spent for the benefit of UK miners.

Yesterday's statement by Mr Simon increases the likelihood that the NUM will revive legal action against Mr Scargill and Mr Simon for the money. Mr Scargill is also under increasing pressure to resign his presidency of the IMO.

There was further embarrassment for Mr Scargill yesterday with the disclosure of a letter to Mr Simon from a Soviet union leader expressing shock that the IMO lent £160,000 to the British miners leader and to Mr Peter Heathfield, NUM secretary.

The letter, written by Mr Anatoli Kapustin, deputy chirman of the Central Soviet of the Union, the Soviet equivalent of the TUC, is highly critical of the IMO's handling of finances and calls for a "radical democratisation" of its activities.

Move to mirror pay codes in Japan and West Germany

Unions warn of ERM job losses

By John Gapper

BRITAIN'S trade unions yesterday said they would reject statutory wage restraint under a Labour government. They also warned that they would not accept limits on pay to avoid job losses after the country enters the Exchange Rate Mechanism of the European Monetary System.

The annual Trades Union Congress in Blackpool, north west England, voted not to accept pay norms if the opposition Labour Party is elected to power, although it gave guarded support to working under a system of co-ordinated national pay bargaining based on practices in Japan and West Germany.

The debate came amid government concern about the inflationary effect of high wage settlements. Some unions want the TUC, Labour and the Confederation of British Industry, the employers' organisation, to hold annual talks on the right level of pay settlement if Labour is elected.

Mr John Smith, the opposition finance spokesman, said afterwards there would be "no 5 per cent, 8 per cent or 10 per cent pay norms" under Labour. But he said the party favoured a broad dialogue on pay with unions and employers.

The TUC will now study how co-ordinated pay bargaining works in other countries, although Labour's leaders are wary of being drawn into anything resembling the ill-fated Social Contract on pay under Labour in the late 1970s.

Leaders of left-wing unions insisted they would not accept any return to incomes policy. Mr Doug Hoyle, president of the MSF general technical union and a Labour MP, said both the TUC and Labour would be "doomed" if wage restraint returned.

The debate followed a suggestion by Mr John Edmonds, leader of the GMB general union, and Mr Alan Tuffin, general secretary of the Union of Communication Workers, that unions should set a "new agenda" for pay bargaining following ERM entry.

Mr Edmonds and Mr Tuffin argue that ERM entry will stop Britain using devaluation to solve economic problems.

If pay rises are not matched by productivity increases a Labour government will have to risk job losses by raising taxes and interest rates.

He said the many different types of pay negotiations currently going on all the time in Britain should be replaced by a debate at the start of each year on economic prospects. This would indicate how the Government would respond to pay rises in its Budget.

EC farmers take law into their own hands

Richard Gourlay on the inequalities for producers working under community policies

WHEN FRENCH farmers ambush Welsh trucks and set fire to hundreds of live sheep, as they have done in recent weeks, prospects for a single European market in agricultural produce by 1992 hardly look rosy.

Angry Welsh farmers, who descended on London from the valleys this week have so far been restrained, limiting their protests outside the French embassy to the waving of Welsh flags and cheeky posters showing stockinged legs daubed with the slogan "knickers to French produce."

Recent events, however, have awakened memories of the lamb wars of the late 1970s and have prompted Sir Simon Gourlay, the president of the National Farmers Union, to try to dampen the retaliatory zeal which is beginning to surface.

Mr Brian Morgan, a sheep farmer from Brecon and Radnor commented: "The French sell a lot of wines and apples in this country. "We are law abiding but I don't think our government should assume that our farmers are going to go on taking this."

In this atmosphere of distrust, a case might be made to suggest that the European Community is reaching the limits of free trade in agricultural produce.

Faced with the loss of a traditional industry and jobs because the market's invisible fingers say other producers are more efficient, farmers take the law into their own hands to protect their livelihoods.

The Common Agricultural Policy (CAP) – the EC's first, and for a long time only, common policy – not only looks expensive, far from common and the wrong instrument for keeping farmers farming.

But the case can be overstated. French sheep producers have to deal with peculiar structural problems faced neither by fellow farmers in France nor by foreign counterparts growing dairy, cereal or other produce.

French sheep raising is almost exclusively confined to small farms which are inefficient compared to larger British and Irish farms.

In common with their Welsh counterparts Irish sheep farmers have been running the gauntlet of angry French farmers.

As the CAP's lamb regime has evolved, British and Irish producers have also benefited relatively more from EC price support than French sheep farmers because of the structure of the regime.

Levels of EC support are less generous than a few years ago, although it remains relatively profitable to expand production in the UK while it is less so in France, partly because of the differing economies of scale.

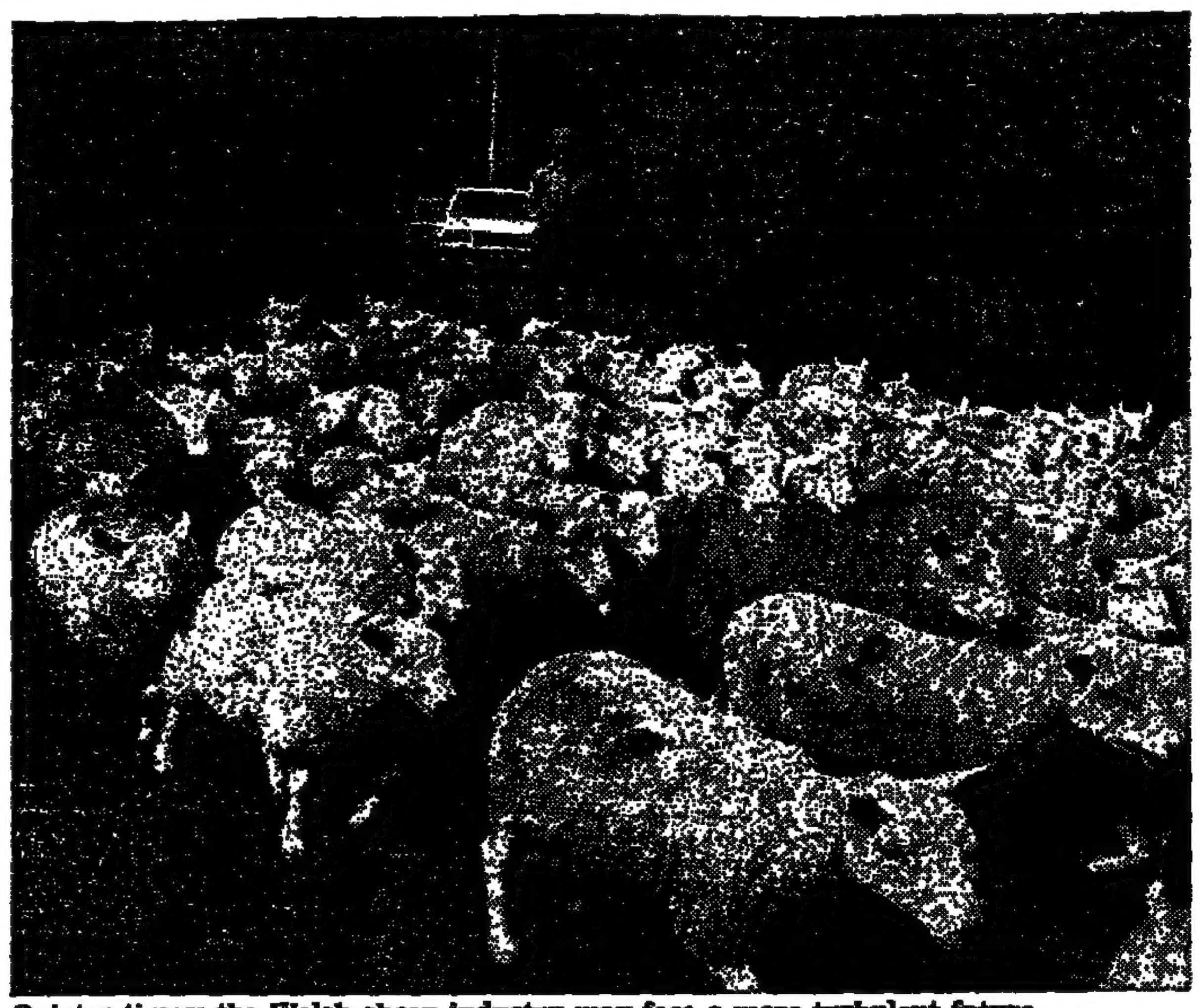
European Commission figures show that UK sheepmeat production rose 20 per cent to 342,000 tonnes in 1988 over the previous eight years.

The comparable rise in Ireland was 28 per cent, to 50,000 tonnes, while French production fell 13 per cent to 151,000 tonnes.

Furthermore, the growth of UK and Irish production and exports has accelerated in the last few years, partly because of growing demand in Germany and France which has not been met by local producers.

Finally drought in Europe and fears of disruption to middle east markets, because of the Gulf crisis, have added to French farmers' difficulty in coping with the 20 per cent fall in sheep prices seen this year.

Where sheepmeat farmers differ from most other CAP producers is that they have either been clear winners or clear losers over the past decade.



Quieter times: the Welsh sheep industry may face a more turbulent future.

Problems in beef production caused by overproduction and exacerbated by increases in East German sales, for example, have hit European farmers more or less equally, although this has not prevented French farmers from destroying East German carcasses recently.

Reforms of the dairy and, to a lesser extent, cereal regimes, designed to curb the cost of CAP price support, have had a less significant impact on incomes.

This has eased the pain of reform. But French sheep farmers have been clear losers.

While demonstrators in London might be justified in complaining that the French Government has been slow to protect the free flow of Welsh sheep to abattoirs in France, there seems to be little question that EC member states remain committed to the single market in agricultural goods.

France's unilateral decision last June to ban British beef exports because of BSE, so-called "mad cow disease", was a more serious demonstration of how Community policies and the impetus towards 1992 appeared to be compromised.

"In that case it was more serious because it was governments that took the action – now it is a section of a national community," says Mr Steven Rossides, the NFU's director in Brussels.

The real root of the recent violence appears to stem from the structure of French agriculture.

While much of the industry is very efficient, particularly in the Paris cereal basin, a large proportion of it – including the sheep industry is marginal, with small farms and ageing farmers who are unable to compete – even with generous price support.

Tolerance of the radical French farmers' slaughter of live sheep and destruction of carcasses reflect a continuing decline of rural France; officials on both sides of the English Channel see it as a political problem.

In fact, European Community farm ministers appear recently to have found a surprising unity in working towards a common market in produce, according to to Mr Brian Gardiner, a Brussels-based agricultural policy consultant.

Earlier this year, when ministers agreed on a policy to slaughter cattle affected by foot and mouth disease rather than to continue the policy of vaccination they demonstrated an unexpected resolve.

Paris arguably had most to lose by the change, given the pharmaceutical industry's lobbying to protect a large market. Equally, the agreement on British beef exports, following the battle over BSE or mad cow disease, showed that although ministers might have fought their national corners none were prepared to jeopardise the free movement of produce over the long term.

However, Mr Gardiner and other Brussels observers say the recent slaughter of Welsh sheep by French farmers, apart from highlighting France's reluctance to police free movement of goods adequately, does demonstrate a fundamental weakness in the CAP.

"The CAP can not deal with agricultural adjustment," he says. "You can not blame the CAP because adjustment is beyond the scope of the thing.

The CAP is basically a price support system which needs to be changed from a market oriented policy to a social one."

Faced with threats to their livelihoods, few farmers are likely to give too much time to the niceties of free movement of agricultural goods.

The periodic burning of sheep and the destruction of carcasses are likely to continue until the CAP, or another EC policy, recognises the special needs of farmers pushed to the wall by community wide changes to the pattern of agriculture.

BUSINESS LAW

Protecting trade secrets in Japan

By Hiroshi Oda

IN JUNE, the Japanese Diet (Parliament) amended the Law against Unfair Competition in order to improve protection of trade secrets. This law, which should not be confused with the Anti-Monopoly Law of 1947, emanates from the Paris Convention for the Protection of Industrial Property. It was enacted in 1934 when Japan took part in the Hague amendments to the convention which were designed to control "all kinds of acts which are against unfair practice in commerce and industry." The latest amendment has made this law the basic law for the protection of trade secrets.

Until the amendments, the protection of trade secrets was covered by different laws such as the Civil Code, Commercial Code and the Criminal Code. Unlike the US, there was neither a model code for the protection of trade secrets nor a body of case law. Although the German Law of 1896 had served as a model for the Law against Unfair Competition in Japan, provisions on the protection of trade secrets were dropped at the drafting stage.

If a contractual relationship existed between parties, trade secrets were protected by general rules of contract law. Thus, those who disclosed trade secrets against provisions of a licensing agreement were liable and contractual obligations were enforceable. The Commercial Code is also applicable when a board member is involved.

In cases where trade secrets were infringed by a third party who was not bound by contract with the holder of the secrets, the primary means of protection was tort law. There have been cases where the plaintiff successfully recovered damages. However, the Civil Code lacks an explicit provision which enables the plaintiff to seek an injunction.

Theoretically injunctive relief is possible in Japan and there have been cases involving pollution and public nuisance as well as privacy where injunctions have been granted. In contrast, there have been no cases where an injunction has been granted for the protection of trade secrets. On the contrary, in the late 1960s, an appellate court refused to grant an injunction in a case where trade secrets were disclosed by a licensee and used by a third party.

The unavailability of injunctions was considered particularly detrimental, since litigation takes a long time in Japan. All in all, the existing legal framework for the protection of trade secrets was thought to be insufficient.

However, until recently, people in Japan were not necessarily aware of the necessity of introducing a new system for the protection of trade secrets. Perceptions started to change only in recent years. A survey conducted by the Institute for Intellectual Property in late 1989 clearly demonstrated the increasing awareness on the part of listed companies of the necessity of a proper system.

The reason for this change is threefold. First, the gradual shift towards an economy which is centred on information and technology has necessitated a better protection for trade secrets. In fact, the significance of trade secrets has been increasing, for instance, in the area of computer technology as well as bio-technology, where protection of information by copyright law or patent law is sometimes unavailable or unsuitable.

The legal framework for the protection *of trade secrets was thought insufficient*

Second, there have been changes in industrial relations. Japan is well known for its life-long employment system. Employees stay with the company until retirement and are loyal to the company. In fact this system primarily applied to large companies; among the medium and small companies, job mobility is higher.

Today, with the increase in the number of smaller firms, for instance, in the computer software business, job mobility has become much more marked. This obviously necessitates more and improved protection of trade secrets.

The third factor which has facilitated the amendment of the law is the drive for international harmonisation in the field of intellectual property law. The issue is now being discussed at the Gatt Uruguay Round. The US has also been urging the Japanese to take the necessary measures for the protection of trade secrets for some time.

The Japan Federation of Bar Associations (*Nichibenren*) was one of the first to react to the changing circumstances. It published a draft amendment of the Law against Unfair Competition last year. In the same year, Miti (Ministry of International Trade and Industry) founded a sub-committee on proprietary information within one of its advisory committees. On the basis of the report of this sub-committee, Miti prepared a draft amendment to the law which the Diet passed this June. This approach of providing protection for trade secrets by the Law against Unfair Competition is in line with Germany, Austria, Switzerland and Scandinavian countries.

The Law against Unfair Competition lists various types of acts which comprise unfair competition and are subject to injunctions. Now infringements of trade secrets have been added to this list. The amended law provides that production-formulae or methods, methods of sales and other technical or commercial information relevant to business activities which are not known to the public and are treated as secrets are to be protected by this law.

Thus, information must not be publicly known if it is to be protected as a trade secret. This means that the information should not be available to unspecified persons without resort to unfair means. The information also must have an economic value and has to be treated as a secret by the holder.

The holder must have made sufficient efforts to keep the information secret. In this respect access to the information must be limited to a certain number of people. Those who are given access to this information must be under an obligation not to disclose or use the information without authorisation. And it must have been made clear that the information is restricted by, for example, designating it as "secret" or "restricted".

The amended law basically covers two types of infringements. The first is the unauthorised procurement by theft, fraud or extortion. If a third party acquires, uses or discloses trade secrets knowing that they had been procured by such means, or was at serious fault in not knowing it, his act is subject to an injunction.

Moreover, if a person, who has obtained trade secrets in a legitimate way, later becomes aware of the fact that the secrets have been obtained in an unauthorised manner, he is not entitled to use or disclose such information. A person who, by serious fault, failed to find out such a fact, may also face an injunction if he uses or discloses such trade secrets.

The second type of infringement is the use or disclosure of trade secrets, which had been legitimately disclosed by the original holder, for the purpose of unfair competition or of harming the interests of the original holder.

Those who knowingly obtain, use or disclose such trade secrets or those who were at serious fault in not knowing the fact risk an injunction. The same applies to those who later become aware of the relevant facts but nevertheless use or disclose trade secrets and to those who by serious fault fail to recognise such facts.

Holders of trade secrets (entrepreneurs) whose interests are affected or are likely to be affected are entitled to seek an injunction. In addition they may demand the destruction of items incorporating trade secrets as well as end-products, and any equipment used for the infringement. They are also entitled to compensation and other measures to restore their credibility. These actions have to be initiated within three years after the holder knows of the infringement and the identity of the infringer.

Although the Law against Unfair Competition provides for criminal sanctions, they do not apply to infringements of trade secrets. In Japan there is an continuing debate concerning the total amendment of the Criminal Code. The government is cautious about introducing new penal provisions. Criminal sanctions for the infringement of trade secrets are therefore for the time being left for further consideration.

There are some issues which are left to the courts to decide. For instance, the scope of trade secrets which are to be protected and the extent of diligence and efforts required for the information to be qualified as trade secrets are left to judicial interpretation. It is expected that a body of case law will develop on the basis of this law.

The author is Professor-elect of Japanese Law, University of London.

TECHNOLOGY

Scalpel's gentle touch

A NEW kind of scalpel that breaks up soft tissues with high-frequency vibration and vacuums the debris of broken cells is exciting the surgical community. The tool is highly selective and leaves membranes, blood vessels and nerves intact.

It has been developed by the Surgical Technology Group, part of Spembly Medical, of Andover, Hampshire, a small medical engineering company well-known for its cryosurgical instruments. Peter Gibson, chief executive, says his first ultrasonic instruments have already found customers in 14 countries.

Gibson says he spotted the market potential in an ultrasonic scalpel used by some neurosurgeons for "inoperable" brain tumours because of its exquisite selectivity in distinguishing between different tissues, but far too expensive and troublesome for everyday uses.

"We've taken the complexity out of it," Gibson claims. The development has designed an ultrasonic probe robust enough to be autoclaved complete at 137 deg C, whereas its precursor needed to be dismantled. It consists of a rod of piezoelectric material called lead zirconium titanate, used in military applications of ultrasonics. This ceramic is excited electrically at either 24 or 35 kilohertz, and in turn vibrates a slender titanium tube.

In addition to neurosurgery, Gibson identified three surgical uses for his £20,000 Selector system. One is in operating upon the liver, for example to remove a tumour. Surgeons are not normally willing to do it because of the high density of blood vessels in this organ, and the inevitable massive blood loss. Gibson claims his scalpel just bounces off blood vessels.

Another is in heart surgery, as an alternative to the replacement of faulty heart valves because they are failing to close properly owing to deposits of plaque. Instead of replacing the encrusted valve, the ultrasonic scalpel can be used to debride it, much as a dentist uses ultrasound to scale teeth, without damaging the delicate membranes of the valve.

David Fishlock

Lynton McLain describes the battle to make the world's biggest and most powerful jet engine

Revving up for a clash of blades

The battle to produce the world's biggest and most powerful jet engines depends on two different design philosophies by the largest companies in the jet engine business.

At stake is the leadership of an emerging world market for very powerful engines for the twin-engine airliners that could replace some four-engine jumbo jets from the mid-1990s. The market could be worth $50bn by 2010.

Rolls-Royce of the UK has taken an evolutionary approach, based on the Trent version of its RB211 engines. (Pratt & Whitney of the US is also evolving its PW4000 engine into the big thrust category with its proposed PW40XX.)

In contrast, GE Aircraft Engines, the world's largest aero-engine company, is proposing a new design, the GE90. It will cost between $1bn and $1.5bn to develop, according to Brian Rowe, the company's senior vice-president. Snecma, the French aero-engine company, has a 25 per cent stake in the project.

Rowe said that the GE design would be quieter than the Trent. Sir Ralph Robins, the deputy chairman and chief executive of RR, retorted that at present the GE90 engine was "infinitely quieter than the Trent, because it was only a wooden mock-up."

Rolls-Royce also has a wooden mock-up of its Trent engine at this week's Farnborough Air Show. The real one is at Derby, where it ran for the first time late last month, two years ahead of the planned test of the GE90.

Sir Ralph says that "the opportunity to develop a completely new engine is one we are keen to avoid. Our whole philosophy is not to start again. For one thing, you cannot feed any of a new design back into existing engines."

The rival engines are designed to produce thrusts of up to 100,000 pounds. Because this power is so great, only two engines will be needed to power the new large airliners such as the Airbus A330 and the proposed Boeing 767-X. In contrast, the Boeing 747, unveiled in 1969, needs four engines.

The Boeing and Airbus airliners look alike: the laws of aerodynamics permit limited options for designers to meet specifications. Big differences in design are unusual in mature technologies serving mature markets because similar requirements lead to similar designs. Yet in this battle for big jet engines differences predominate.

Consider how a jet engine works. Jet engines have a fan compressor at the front connected by a shaft to another fan, or turbine at the rear. In between is a combustion chamber. The assembly is enclosed in a case and jet pipe.

Air is compressed by the fan into the combustion chamber, where fuel burns to expand the compressed air, forcing it out, turning the turbine and fan and producing a reaction: jet thrust goes backwards and the engine goes forwards.

Engines are usually designed to have two shafts, one for low pressure and the other for high pressure. GE's approach follows this simple design. Since the beginning of Rolls-Royce's big engine programme back in the 1970s, however, it has used a three-shaft design.

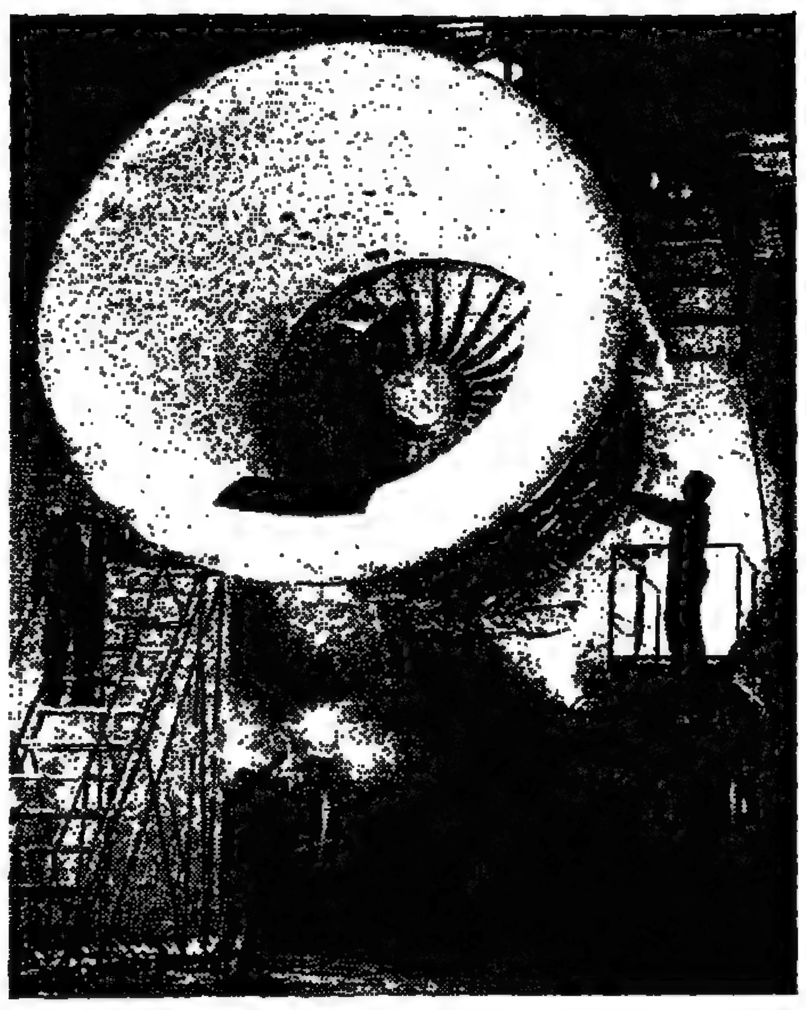
According to Frank Turner, the RR director of civil engines, "compromises are needed to make the two very different systems (the low and high pressure) work together efficiently. The choice of three shafts is a means of reducing the compromises that have to be made in any engineering work."

On a two-shaft engine, two high pressure turbines are fitted to one shaft to drive the compressor: "So at least one is operating at non-optimum speed," says Turner. The other shaft links the big fan at the front with the low pressure turbine at the rear.

Engine efficiency, its cost of operation for airlines and the cost of air fares are determined by each part of the engine working as well as possible.

The three shafts on the RB211 family, including the Trent, split the work into low, intermediate and high pressure systems, each operating independently.

The intermediate turbine in the core does not draw any cooling air in the three-shaft design, saving up to 1¼ per cent in fuel consumption. Both core turbines in two-shaft designs are cooled, wasting energy. These tiny efficiency margins will become crucial in the era of high thrust engines, according to Turner.



The first run of Rolls-Royce's Trent engine

Sir Ralph says: "The bigger the engine, the bigger the advantages of the three-shaft design." He says RR "would find it near to impossible to start again with a two-shaft engine. It is a profound thing to do to change from one design to the other, because all our database is on three-shaft designs and all GE's database is on two-shaft designs."

RR is able to develop the three-shaft design into a "whole family of engines, from 40,000lb to 90,000lb thrust." As well as building some of the most powerful engines in the world in the Trent design, he envisages building a new 60,000lb thrust engine for existing Boeing 747s and a new 40,000lb thrust engine for Airbus airliners, which would be 1,000lb lighter and use 7 per cent less fuel.

GE says it has reached the limit of development in its current two-shaft engines with the CF6-80E1 high-thrust engine. This will enter service with the Airbus A330 airliner in 1992 with a thrust of 67,500lb, rising to 72,000lb in 1994. This compares with a 65,000lb thrust of the Trent rising to 85,000lb, with potential to 95,000lb.

With its new GE90 engine of 75,000lb to 95,000lb thrust, GE has re-designed the two-shaft engine to make it more efficient. The engine will operate at high pressures, compressing the air to a volume 45 times smaller when it leaves the engine as a hot jet than when it enters.

The high pressure is designed to help the engine achieve a high propulsive efficiency, according to Ronald Welsch, the general manager, GE90.

GE uses the largest fan ever made for its new engine. It is 10 feet 3 inches across. It will be the first fan by GE made of carbon fibre. Rolls-Royce is steering clear of composites for its fan. The fan for the Trent is the first to use a new technique for bonding hollow titanium blades.

GE claims that even this advance on the titanium honeycomb wide fan blades of earlier RB211 engines still involves a lot of metal, and hence weight. Welsch says: "These blades are still only 30 per cent hollow, the rest is solid metal." He says that by going for composites for the large 123 inch fan, GE has greater potential for future growth than RR has with its advanced titanium blade.

The second stage turbine on the GE90 is to use "single crystal" metal blades for the first time in a GE engine. RR used this on its earlier engines.

Rolls-Royce has stolen a two-year lead over GE by basing its design on the RB211 engine technology that bankrupted Rolls-Royce in 1971. This was caused by the decision to use the then new carbon fibre for its fan blades. These could not withstand bird strikes. GE says today's carbon fibre is strong enough to withstand birds.

Three years ago GE and Rolls-Royce were partners in the search for the big engine of the future. Rolls had a 15 per cent stake in GE 60,000lb thrust engine, while GE took a similar stake of Rolls' smaller 534E version of its RB211.

Lord Tombs, the RR chairman, said the decision by Rolls to pull out of the agreement was a watershed. Rolls recognised that its three-shaft design gave it the potential to develop a high-thrust engine on its own.

Turner says the design was a "sound piece of engineering, but at the time we developed it we did not fully realise the benefits for future growth."

Computers get a place on the map

Geographic information systems (GIS), which hold geographic data in digital form on computers, are attracting renewed interest as the technology advances. GISs can improve greatly the speed and accuracy of gathering location-related information. They apply to large-scale areas, to countries, or even to the smaller geographic areas which are the concern of local authorities.

Since the bulk of local authorities' work is directly related to location – of properties, roads, services and common land, for example – the authorities would appear to be excellent candidates for GIS benefits. The familiar instances of new roads being dug up by gas, electricity or telephone authorities with a fair chance of disrupting one of the other services in the process point to GIS as the only possible solution, if only the various utilities can get together – as, indeed, they are trying to do.

Surrey County Council is one of a number of local authorities that sees the potential benefits of GIS and is exploring the possibilities. According to Alan Oakley, Countryside Officer and Chairman of the Council's GIS Steering Group, the areas that could benefit include land administration (for example, planning applications), infrastructure management (highway maintenance), the environment (regional planning) and socio-economic use (statistical data for business location).

Speaking at a recent seminar on imaging organised by Unisys, Oakley said a survey had indicated that at least 56,000 man-hours were spent by Surrey staff on map work of some kind, representing a staff cost of at least £340,000 over a one-year period.

Since setting up the database is the major expense, choosing the jobs that the GIS will initially do depends on which databases already exist. The first stage of Surrey's planned GIS pilot project, to be implemented in the Woking area, will include census data, traffic accidents, property details, road condition and street furniture inventories, crime recording, planning applications and traffic flow data.

"All these are existing databases," Oakley comments. "Unfortunately they are on five different computer systems using seven different software packages."

Though the benefits of GIS are clear – notably speed, accuracy and comprehensiveness of information – they are hard to quantify. This is compounded by the fact that the costs are misleadingly identifiable. "The present cost of map handling and continuous data collection is lost in general staffing costs," Oakley explains. "Propose the setting-up of a GIS, and these costs become items."

Because of this, many authorities are bringing in elements of GIS on an individual departmental basis. The pressures for this in Surrey are enormous, says Oakley. The engineers and planners in particular are anxious to install GIS to make the most of their extensive databases.

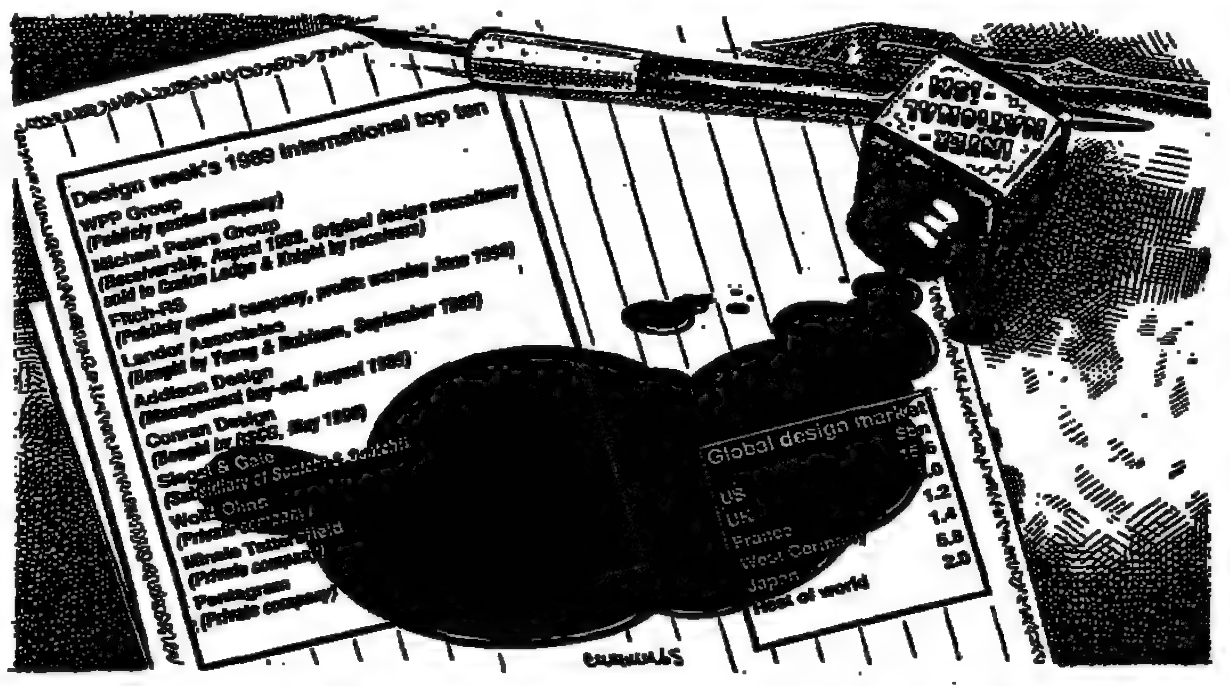
Surrey draws an important distinction between the people who will use workstations to input data and keep the GIS up-to-date, and those who will use their desktop personal computers to obtain the various items of information they need in handling their daily case load. The former type of access will be limited, Alan Oakley stresses. "Our philosophy is to make information guarded by a few but available to all."

Not quite all, though. The intrinsic security of files spread over different departments and locations is undermined by a centralised GIS. The undoubted benefits of prompt and better information have to be balanced against the dangers of misuse and unauthorised access. Oakley believes that, on balance, making information easily available will help the democratic process in local government – though the questions of who should have access to what information will be subject to long debate.

"I have no doubt about the benefits of geographical information systems", he sums up. "But they are hard to quantify, and there are many other calls on finance. Getting the message of the benefits over will always be difficult until we have some results to show".

Ken Owen

MANAGEMENT: Marketing and Advertising



The black cloud over international design

The industry is in turmoil. Alice Rawsthorn reports

When Craton Lodge & Knight snapped up the Michael Peters design business from the receivers on Friday, it ended weeks of uncertainty for Peters' staff; it also closed a chapter in the development of the international design industry.

A year ago the Michael Peters Group was one of the new breed of ambitious design companies aiming to build on their domestic success by *constructing international networks* of consultancies.

Today that dream is in tatters. Craton, a product development company, now owns three of Peters' UK design consultancies. The retail design business and the Peters companies in continental Europe and North America are still in the hands of the receivers.

Michael Peters is the most spectacular casualty of the wave of internationalism that is sweeping across the design industry. But it is not the only design group to have changed hands. Three other companies listed in Design Week magazine's 1989 international top ten (see illustration) have done so in the past year.

Conran Design, one of the larger London consultancies, was bought by Roux Seguéla Cayzac & Goudard, the French advertising agency, this spring. Landor Associates, the San Francisco company, was taken over by Young & Rubicam, the US marketing group, last autumn. Addison, another London consultancy, has regained its independence in a management buy-out.

Wolff Olins, the privately owned UK corporate identity design company, is now said to be up for sale to raise capital for international expansion. There are also rumours that Siegel & Gale, the New York consultancy owned by Saatchi & Saatchi, the UK communications company, may stage a management buy-out.

The international design industry is in a state of flux. The challenge of establishing international networks combined with the downturn in the design markets of the US and the UK – where almost all the international consultancies are based – has flung the industry into turmoil.

There is clearly a market for international design. More and more companies now commission their retail, product and corporate identity design programmes on an international basis. Yet relatively few design companies are capable of delivering such a service.

The recent weakness of the US and UK design industries *has* accentuated the advantages of operating internationally. The obvious way for design consultancies to counter the slowdown in their domestic markets is by drumming up business abroad.

Yet the design consultancies *face a real dilemma in deciding* how to set up and structure their new international networks. So far they have met with mixed success.

The first issue is the cost. It is expensive to open and operate offices in different countries. The investment involved is well beyond the means of most independent companies.

Landor tried to do so. It expanded beyond its base in San Francisco into Europe and Asia-Pacific. But its finances were too fragile to sustain its expensive new network. Last autumn, after months of financial troubles and boardroom bickering, it sold out to Y&R.

Wolff Olins is also attempting to expand internationally as an independent entity. It now owns small sales offices in Paris, Madrid and Copenhagen. *But its recent foray into the US* was a failure.

Two years ago it opened an office in San Francisco. Wally Olins, the chairman, says that ideally the US operation should have been given three years to break even. But Wolff Olins, a private company with limited resources, could not afford to run the risk of prolonged losses and only allowed it one year. When it failed to do so, the San Francisco office was closed. Wolff Olins lost £750,000 on the venture.

Other independent consultancies, notably Fitch and Michael Peters, went public to finance their expansion. Fitch, which adopted a cautious approach, has ended up with a successful product design business in the US and a string of small sales offices in Europe.

Peters was anything but cautious. It made acquisition after acquisition in the late 1980s, but its management lacked the experience to run the businesses it had bought in such a hurry. Peters was left with crippling debts and ended up in the hands of the receivers.

The stock market is now too sluggish – and too badly scarred by the Peters débacle – for another design company to go public. The obvious alternative is to seek the support of a larger group, as Landor has done with Y&R.

In theory, belonging to a bigger group could be a panacea for a design company's problems. The new owner should, after all, be able to offer the capital and infrastructure needed for expansion.

Siegel & Gale used Saatchi's support to set up its European operation. Walker Group, the New York retail design consultancy, has also expanded into Europe under the aegis of WPP, now the biggest collective force in international design. The WPP design businesses have also benefited from cross-referrals from other companies within the group.

In practice, belonging to a large group can be fraught with problems. Design consultancies tend to be idiosyncratic entities, which demand a flexible management style. It is therefore difficult to find a sympathetic parent which really understands the dynamics of the design industry.

There is also the risk of a successful design company being used as a cash cow. Alternatively, the new owner could impose onerous financial targets on a weaker company, or be unduly insensitive in its approach to cost-cutting.

Aegis, the London-based media group, has sold or closed the design consultancies it acquired in its old guise as the WCRS Group. RSCG, the French advertising agency which bought Conran Design this spring, cut the staff by a third only a few months later.

Other acquisitions seem to be working well. WPP is pleased with the performance of its design consultancies. However, it remains to be seen what happens to these companies over the next few years when the earn-outs – performance-related payments – come to an end and the original vendors are free to leave.

Cost is not the only problem for the international networks. There are cultural problems such as language barriers and the dearth of experienced personnel. There are even differences in the concept of design in different countries.

"If you take corporate identity alone, the West Germans and Japanese see it as a cultural phenomenon, the French as a graphic experience and the British are somewhere between the two," says Alan Brew, head of Landor Europe. "There is no over-riding philosophy."

The new international networks also face structural problems. They have to decide whether to invest in fully-fledged design operations – with strategic and creative resources – in each country, or to set up sales offices and service their clients from a central base.

A full-scale operation offers the advantage of better client service because the consultancy can control the entire project. It reduces the risk of losing potential fees by subcontracting out part of the project. Similarly the design group will not incur extra cost in servicing the project from a remote office.

The obvious disadvantage is the cost involved in running a fully-fledged design centre. For most consultancies this is the over-riding consideration. Fitch now has several sizeable projects in West Germany and is joining forces with local partners, such as architects, to service them. Ian Cochrane, the chief executive, says that in the long term Fitch will service the projects on its own, but for the short term the cost of doing so is too high.

All in all the international design industry is in a bind. There is clearly an opportunity for networks to meet the growing demand for international design service. As the consultancies are well aware, unless they set up these networks their competitors will beat them to it.

But the design groups have not yet got to grips with the cost and complexity of operating as international companies. They now face the challenge of doing so under the spectre of Michael Peters, the consultancy that has paid too high a price for its international ambitions.

UK food retailing

Second round in the price wars

John Thornhill on the catalytic effect of West Germany's Aldi

For a company that has opened only six shops in the UK and scarcely spoken a word to the press, Aldi, the West German discount retailer, has certainly created a degree of controversy.

The opening of an Aldi has invariably resulted in price wars with local retailers. Kwik-Save, a rival discount chain, admits that it is selling a few items at below cost price in one of its Birmingham stores to match Aldi and honour its price commitment to customers.

Aldi's no-frills style of food retailing, which offers customers a limited range of about 600 low-priced, high-quality goods, has even prompted the Office of Fair Trading to investigate allegations that food manufacturers have refused to supply the company as a result of pressure from rival retailers worried about the competition.

Strategic Retailing Associates, a firm of management consultants, has studied Aldi's marketing approach and possible implications for UK retailers.* "Is Aldi about to change the shape of the UK retailing market?" SRA's report asks. Probably yes, it concludes.

As most of the major food retailing multiples have moved upmarket – out of the high street and into sophisticated superstores where economy of scale is greater and margins fatter – a gap has opened at the bottom end of the market. It is this which Aldi is trying to exploit.

It is not the only player in this field. For many years, Kwik-Save, with 650 stores, has flourished in this market; Argyll's Lo-Cost chain and the Co-Op stores also command a presence.

But even in comparison with these retailers, the Aldi concept appears novel and could presage further moves from continental discount retailers into the UK. Both Dansk Supermarket, a Danish retailer, and Norma Lebensmittel, another West German concern, are known to be eagerly eyeing the UK market where food retailing trading margins have long lingered in the 5 to 6 per cent range compared with an average of around 2 per cent on the Continent.

But how can Aldi offer such low prices, estimated at anything up to a third less than those of its most expensive competitors? SRA suggests several reasons:

● Aldi's marketing approach gives a clear and simple message - low cost. *Because of this* Aldi can afford to reduce its service to a minimum. The shops are fairly rudimentary and the goods are stacked in boxes with their prices listed on a poster above them. The checkout operators are expected to remember the individual prices of all the goods, dispensing with the need for costly electronic point of sale equipment. Staffing is kept to a minimum, but workers are well paid – about £4.50 per hour –

to encourage flexibility. Only cash is accepted to speed up the checkout process.

● Aldi's size gives it formidable buying muscle. With 2,000 discount stores in Germany and over 700 others on the continent, Aldi can command highly favourable deals with international manufacturers; for instance, it buys so cheaply on the continent that it can afford to import into the UK. Its position with suppliers is further strengthened by the narrow range it offers and the high volumes it sells.

● Aldi will be able to sustain losses or very small margins for a long time because it has considerable financial strength and extended planning horizons. The company is privately-owned and does not face the same pressure to produce immediate financial returns as do public companies. SRA believes Aldi will first aim to establish itself before it tries to make serious profits. In Denmark, it took Aldi 10 years to make a profit, SRA claims.

It is still early days to assess the impact of Aldi and how serious is its commitment to the UK market. The company is highly secretive and avoids *commenting* to the press.

But SRA believes that if Aldi expands to 200 stores in the UK over the next five years and maintains its low-price policy for the same period "lower price expectations emanating from localised price reductions are likely to ripple throughout the Midlands and North of England."

For this reason Aldi may well act as a catalyst for change exerting an influence on the market far greater than its proportion of food retailing sales would suggest.

In July, SRA *questioned 189* shoppers at Aldi's Shirley store, near Solihull. Contrary to its expectations, the customers did not conform to the image of pensioners who "couldn't afford anything better." Rather, SRA discovered that there was an unusually high number of people from the 25-44 age group and that, in socio-economic terms, the customer profile reflected that of the catchment area, including a fair number of ABC1s.

SRA also found that 80 per cent of the customers came to the store by car and that the sample was weighted towards consumers with big families. The average spend was just over £14, the median £6.

The picture that emerged was that the "typical" shopper was a reasonably affluent housewife who came to the store by car and shopped for basic food items for a large family – the ideal customer for all the big grocery stores.

Aldi will never satisfy all the shoppers' needs and cannot hope to compete directly with the out-of-town superstores but its presence in the market will put pressure on such retailers to offer lower prices and place greater emphasis on perceived value for money.

As one Aldi customer canvassed by SRA commented: "It's about time someone gave the big boys a run for their money."

**The Entry of Aldi into the UK Grocery Market. Strategic Retailing Associates, 17 Shrubbery Road, Downend, Bristol BS16 5TA. Price £295.*

Two Shakespearean Actors

SWAN, STRATFORD-UPON-AVON

The artist, W.P. Frith, saw William Macready's final Drury Lane season: "To reach the pit during the last appearances of Macready was almost as perilous as an ascent of the Matterhorn. From several of those I escaped with blackened arms."

Two years before, in 1849, chaos had engulfed Macready at the Astor Place Theatre in New York, when his *Macbeth* incited a riot, leaving 22 dead and 36 injured. Richard Nelson sets *Two Shakespearean Actors* during that riot, and places Macready opposite his great American rival, actor-manager Edwin Forrest. The main issue here, cultural self-determination, informs the collision of these two immensely egotistical actors.

Nelson's play faithfully reflects the confusions surrounding the Astor Place incident. Both Forrest and Macready are producing *Macbeth* on the same night in rival productions; anti-colonial sentiment fuels Forrest's local popularity and threatens Macready's show. Forrest withdraws his *Macbeth* but replaces it with his provocative American nationalist drama, *Metamora*. Macready's *Macbeth* ends in the riot.

Nelson's Macready, superbly played by John Carlisle, weary of the road, treats his American troupe with a mixture of savage irony and obvious charm. He scatters *bons mots* which wound and salve: "Americans are intelligent in an instinctive sort of way." His advice to his Lady Macbeth, "I look at the audience, you look at me," shows a man unable to explain his own art. But in Nelson's numerous backstage and after-show scenes, Macready works a subtle alchemy with his colleagues. Carlisle inhabits the character wholly: massively self-centred, bullying yet vulnerable; he is sufficiently at home with Macready to deliver the actor and his performances, complete with Victorian stage conventions.

In contrast to Macready, Forrest (Anton Lesser) seethes with frenetic energy, giving notes to his cast in a hubbub of activity. His insecurities surface as testy justifications. Nelson presents him as a manager fleeing to the stage from domestic broils with his cool wife (Mary Chater): "Life is not half so much fun as theatre." Despite Lesser's authoritative performance, only in the final scene does Forrest match Macready's power in their dispute over the handling of the riots; the animosities shift, as both discourse on acting, quibble over Shakespeare's lines, and deliver equivocal compliments – "You were unforgettable as Othello."

Unfortunately, the play squanders some excellent company work, as Nelson allows the two principals to dominate. Paul Jesson's apt, awkward John Ryder, companion to Macready but Macduff to Forrest, nervily negotiates with divided loyalties and bears the burden of being inward with both great men. The fine Yolanda Vazquez plays the wife of an Irish playwright (Ciaran Hinds) on the make; she presides with pointed tact at the dinner-table, where Forrest and Macready first meet.

Alexandra Byrne's fine, simple design, Rick Fisher's sharp lighting, and Jeremy Sams's operatic-vaudeville music all contribute to a production which pleases the eye and the ear. But, because Nelson's second act dissipates the verve and momentum of the first, Roger Michell's direction has to confront scenes which do little to advance the plot and which pass up opportunities to concentrate the issues. In fact, *Two Shakespearean Actors* remains unclear about the issues it does frame. As a play about cultural values and their acceptance in society, it lacks rigour; and, as an investigation of social mores, it lacks integrity.

Andrew St George

John Carlisle and Anton Lesser — Alastair Muir

Scenes From a Marriage

MINERVA THEATRE

The steady disintegration of a marriage, from the first tiny fissures to the ultimate flamer that busts it irreparably apart, ought to be a painful process to watch. Well, at one level – the There-but-for-the-grace-of-God level – it certainly is. But such is the magic of the masterly acting by Alan Howard and Penny Downie, as the Swedish couple who suffer this relentless drift apart, directed by the author's friend, actress Rita Russek, that it is also for the spectators an enjoyable experience. Ingmar Bergman's play +Scenes From a Marriage+ distilled from the six-part television series of 1972, translated by Alan Blair, and now put on at the Chichester Festival's studio theatre, the Minerva, lasts for two hours non-stop. And that is not a moment too long.

Johan and Marianne's marriage is everyone's marriage and their disagreements over the precise extent of family obligation are everyone's disagreements. Although they are both typical Swedes with well-paid jobs (in law and academic psychology), a summer chalet and an apartment in Stockholm all done up in white with wooden furniture of the purest grain, they emerge as a model pair of modern mid-lifers who have everything their hearts could desire, including two school-age daughters, except the one nameless elusive thing that could enable them to be truly happy.

So that no one could possibly mistake his intentions, Bergman plants an early reference to Ibsen's +Dolls' House+ to which the pair react differently. Johan thinks the old play creaks. Marianne disagrees. She might be Nora's great-great-granddaughter, the distant beneficiary of the Scandinavian victory in the cause of women's liberation at the turn of the century that spread throughout Europe like wildfire. And yet, Bergman is saying, in every generation the battle has to be fought all over again.

The play – a two-hander – opens with the couple in bed on holiday. Marianne awakes from a nightmare and clings to Johan for reassurance. Her dependence on him is finely understated by Penny Downie whose eyes brim with unshed tears as she seems in her dazed condition to float around the room; Alan Howard as her husband offers her his support combined with an air of quizzical detachment. It is like the opening adagio in a sonata for violin and cello. As both instruments work up to violent crescendi dominating the latter part of the play, we observe the nature of this dependence becoming wholly reversed.

In the penultimate scene – a long intoxicated requiem to the accompaniment of a bottle of champagne brandy – he grovels to her; he not she is the reluctant signatory to the agreement finalising their divorce. In howls of pain and rage and self-pity Howard's mask cracks, an awesome sight; Downie after a final erotic fling, casts him aside, pen in hand, briefcase at the ready, and walks Nora-like out of the door. In two splendid examples of what Tynan used to call high-definition performance, all the nuances are brilliantly observed. It is worth making a special journey to Chichester to see this.

Anthony Curtis

Flare Path

KING'S HEAD

Anyone who wants to see a really well-made play, almost guaranteed to give pleasure, should hasten to the King's Head Theatre Club in Islington where there is a fine production of Terence Rattigan's *Flare Path*.

It is an odd venue, for *Flare Path* is physically rather a large play. There is an aerodrome in the background. The noise of aircraft – "theirs and ours," as they say – needs to be heard all round. The King's Head has a very small stage. Also slightly odd to find fringe theatre putting on something so professional. *Flare Path* plays every trick in the theatrical book and practically every one of them is a trump.

This is Lincolnshire 1941. The enemy is coming over in the air. The RAF is trying to strike back. But the play is not jingoistic. When Flight-Lieutenant Graham says: "We've got to win this war somehow," he adds apologetically: "Oh God, how *Daily Mail*!"

The play had over 600 performances in London in 1942-43 when the air war was still going on. It must then have been almost unbearably moving. What is striking now is that it has stood the test of time and has probably gained with age. *Flare Path* is full of details that may once have been common place, but are now collectors' items.

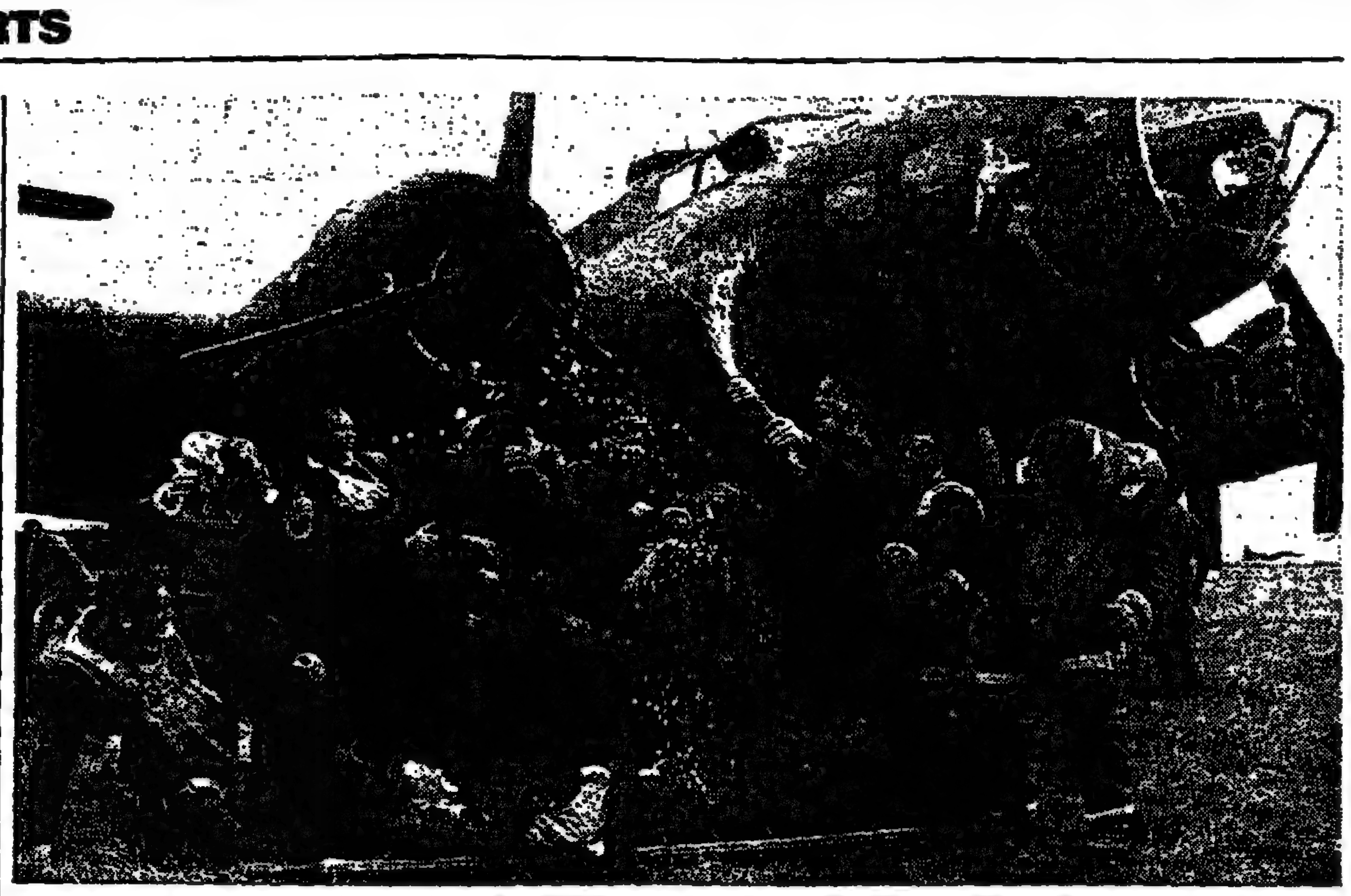
Take the language, for example. "Is that pukka gen?" someone asks. Dinner is at 7.30 pm *eta* (estimated time of arrival). This is not an accidental survival. Rattigan makes jokes about the RAF slang in the text. "It was rather a shaky do," says the Flight-Lieutenant's wife referring to her husband bringing back his limping plane over the North Sea. "She's learning the old vernacular," is the response. It is known as "polite air force understatement."

Here is an example of Rattigan's sheer professionalism. There are a couple of potentially compromising emotional scenes between lovers. There is a door to the left and a door to the right. Anyone could burst in at any time. A lesser playwright, even a good one like Sheridan, would have had that happen. Rattigan keeps the doors firmly closed, so there is only suspense that they may open. He is terribly good at leaving things unsaid, but not un-noticed.

The detail in Derek Goldby's production is superb. Look at the haircuts: the women wear stockings, not tights; even a Hollywood movie star still wears a sports jacket with the top button firmly fastened. If one were stood up against a wall and forced to assess the cast in order of merit, top marks would go to George Sweeney as Sergeant Miller, the navigator with a bad back who before the war had a promising job with London Transport – as a conductor, closely followed by Nicky Croydon as wife who reveals that information about her husband. But everyone would win something.

The play runs only till September 30 and the theatre seats only about 70 a night. Don't say you missed it.

Malcolm Rutherford



Scene from 'Memphis Belle', David Puttnam's first film since leaving Columbia Pictures

CINEMA

To Hell and back with Belle

Rattling out of its hangar after the longest publicity servicing since *Dick Tracy*, here comes *Memphis Belle*. In case you have been on Mars during recent months, this is David Puttnam's first production since leaving Columbia Pictures. It is also his most overtly inspirational since *Chariots Of Fire*. Ten young American airmen take off into the clouds for their last Second World War bombing trip. (It is their 25th mission, after which they are allowed home.) Destination: Germany. Risks: colossal. Will they return alive?

As a movie plot, it is as simple as "The cat sat on the matte." Plucked from the true-life tale of a B17 bomber crew whose final mission was the subject of a renowned documentary made in 1944 by William Wyler, *Memphis Belle* takes us to Hell and back and makes sure we never forget the trip. We wince at explosions, jump at bursts of ak-ak; and by final fade-out we are hanging on to any non-moving part of our theatre seats, as the film negotiates fire and flak and composer George Fenton's fervid variations on "Danny Boy."

Up in the sky, it is all splendid stuff. Director Michael Caton-Jones, after terrestrial service on *Scandal*, has been scrambled to higher things by Mr Puttnam. Populous as the skies of British movie history are with aerial heroics – you can scarcely budge up there for the oxygen-masked ghosts of Kenneth More, Richard Todd and company – *Memphis Belle* is something special. We do not merely *watch* the planes and their pilots and gunners in action. We feel as if we are in the planes with them.

Caton-Jones has his B17s shake like an earth tremor. (The vibrations on take-off make the men seem to shiver with fear.) He conjures up the cold, the whistling winds, the vertiginous exposure of life at 25,000 feet. And he evokes the trapdoor readiness of death to snatch its victims at a moment's carelessness or misfortune. A planeful of new recruits slices in two like a toy and dives to earth. An exploding plane creates a black pall for the Memphis Belle to fly through blind. And in an irresistibly suspense-building liberty with truth, the film has crew leader Matthew Modine decide to make a second pass through the exploding skies over Berlin when poor visibility ruins the first.

Down on the ground the film is less inspired. John Lithgow and David Strathairn, incarnating the officer class, crudely semaphore the counterpoint between rangy disreputability (Lithgow as a publicity-minded Colonel) and ramrod-straight integrity (Strathairn). And the soft option of sentimentality is too seldom resisted. When the planes are counted back in and lumps start to form in everyone's throats, "Danny Boy" goes into overdrive on the soundtrack and there is even an expectant-eyed doggy to make us all go "Oooh, aaah."

Never mind. The odd hairline crack does not stop this plane flying nor fissure its crew's credibility. Monte Merrick's screenplay does a commendably deft job of individualising the airmen: from Modine's piously goodhearted leader to D.B.Sweeney's fear-fraught loner to Eric Stoltz's faltering would-be poet, who passes off Yeats's "An Irish Airman" as his own when his pals request a reading from his verse note-book. (The camera peers over his shoulder to see his own poems hectically scrawled out.) At once humane and harrowing, *Memphis Belle* is the best film fired from the controversial David Puttnam canon for years. In fact it raises only one killjoy question. Why ever did he not make a movie like this when he was at Columbia Pictures?

Nigel Andrews

MEMPHIS BELLE
Michael Caton-Jones

STELLA
John Erman

WHY ME?
Gene Quintano

WAITING FOR THE LIGHT
Christopher Monger

There is a scene in *Stella* where Bette Midler, the gutsy, working class, single mother – plods around town selling make-up door to door. *Could this be where she pulls* herself up by her ankle straps, becomes a cosmetics tycoon, is betrayed by her daughter, and shoots her lover in a fit of jealousy? Unfortunately that was another movie, but it does suggest that if Bette Midler must make so-called women's films she should forget about being unfailingly loveable and look for meatier vehicles than this remake of the King Vidor/Barbara Stanwyck 1937 weepie.

Kept in period, its scenes of class and maternal sacrifice might have been more credible, but not more palatable. Updating the action, pregnant bartender rejects preppie lover, brings up child alone, then withdraws from her daughter's life believing she is a social *embarrassment* – only exposes the dubious attitudes of the film more clearly. The plot's main concession to the Nineties is that the class and financial distinctions it observes trouble Stella far more than anyone else. The values of the film still stink, but screen writer Robert Getchell and Director John Erman have managed to submerge them in a story that suggests a woman suffering more from bad dress sense *than low birth*. We are constantly made aware that Stella looks wrong. Her make-up is too heavy, her clothes are too tight; even her daughter's good taste (acquired on visits to her father) never rubs off. At one point Stella does rip the flashy *sequins off* a dress, but she hasn't really got the message, and she's soon letting the side down in an outfit that looks like a mouldy cream cake.

At the end, when poor faded Stella stands in the rain for an outsider's glimpse of her daughter's smart wedding, she seems more a victim of fashion than society. An early visit to an image consultant might have saved her so much heart-ache.

★

Why Me? is a kind of period piece too. Caper movies are not so common now; may be there are no new ways left to caper. Christopher Lloyd (Doc in *Back to the Future*) and Christopher Lambert (*Subway, Highlander*) play two crooks who bite off more than they can eschew when they steal a fabulously valuable ruby which also has great political significance. With rival Turkish and Armenian groups, local gangsters, the CIA, and the police, all trying to get the stone, they soon develop a powerful desire to get rid of it. Inevitably the film relies heavily on slapstick but the slight story is also concise and unpretentious. And Lloyd and Lambert make a surprisingly good comedy team.

It is back to plucky single mothers in *Waiting for the Light*. Luckily this one (Teri Garr) is too concerned with the Cuban *missile crisis*, and the way her anarchic Aunt Zena (Shirley MacLaine), a former conjurer, keeps leading the kids astray, to think about dress codes. It is the all too familiar atmosphere of a world crisis, inescapably muted into wallpaper by constant television coverage, that makes the community vulnerable to a crabby neighbour's claim that he has seen an angel in his garden when one of Zena's magic tricks goes wrong. But may be she is performing a social service. Writer/director Christopher Monger creates an agreeable scruffy American small town setting and, with unhurried direction, makes it credible that a vision could be received not with ridicule but with relief. *Sometimes people* want to believe in miracles.

Ann Totterdell

Mummenschanz

SADLER'S WELLS

The Swiss mime troupe, Mummenschanz, is back in London, celebrating its twentieth year. On Tuesday night it opened a Wells season with a programme little different from what we first saw all those years ago. In the first part of the evening the three performers generally get themselves into vast costumes whereby they become gigantic *hands or curious and inflated* shapes that behave like oh-so-cute humans. In the second part, they don quaint *masks and head-dresses, or* – quite literally – pull faces by manipulating chunks of plasticine to create various monstrous and jokey masks (The Elephant Man as comic turn).

For devotees, this is enough. The staging is slick, with each brief scene played out on a darkened stage so that the magic of transformations and the scamperings of the black-clad players are suitably mysterious and surprising. Nothing goes on very long – the ideas are short-breathed, but such brevity is far from the soul of wit – and nothing is very conclusive. I think that mime demands a special kind of willingness from its public to accept innocence as a spring-board for imaginative flights (*I am a non-believer* in this), and the Mummenschanz formula of winsome activity as an end in itself palls very quickly indeed.

It is briefly amusing to watch while an animated and enormous truffle climbs on to a table; we are entertained by the glimpse of a Portuguese man of war the size of a bus (providing it is not in the sea); bulbous beings and odd figures that might have been designed by Fernand Léger or Oskar Schlemmer are intriguing – but only for a moment. The sum effect is of watching a freak-show where all the exhibits have been chosen for their anthropomorphic jollity – and this is a dangerous quality in the theatre. Especially when unsupported *by any thematic or dramatic* reason. As the evening wears on – nearly two hours unbroken save by the delighted laughter and applause of the audience and the occasional child's voice asking faux-naif questions – there comes the suspicion that it is going *nowhere*. *Mummenschanz's* artists have demonstrated exceptional skills, and we are entitled to ask for more rewards than the *superficialities of their* technical bravura.

There is no accompaniment save the rustle of the performers' costumes. At one *moment an animated and* corrugated tube tosses a large balloon into the audience , and oh the fun of banging it back on stage! Much laughter (and *more litter*) is generated by pulling at masks made of rolls of loo-paper. In the interval one member of the troupe descends into the stalls and is acutely roguish with sticky-tape. Roars of applause.

Clement Crisp

ARTS GUIDE

August 31-September 6

EXHIBITIONS

London

The Tate Gallery. On Classic Ground – an exhibition devoted to French, Italian and Spanish art of the first four decades of the century. It includes work by Matisse, Picasso, Braque and other established masters of the period. Sponsored by Reed International.

Paris

Carte musées at monuments sold in museums and metro stations enable visitors to avoid queues at 60 museums and monuments, including the Louvre, Musée d'Orsay and Versailles.

Centre Georges Pompidou. Andy Warhol. Some 200 works retrace the career of the multi-faceted artist who, born of Czechoslovak immigrant parents in Pittsburg in 1928, became one of the main representatives of American Pop Art and part of the *Underground Culture* scene. Projections of Andy Warhol films complete the exhibition. Beaubourg. Closed. (42771233).

Picasso Museum. The restored 17th century Hotel Sale, provides a fitting home for the world's largest collection of Picasso's. It comprises 203 paintings, 158 sculptures and more than 3,000 drawings and engravings, 16 collages and 88 pieces of ceramics. (42712421).

Musée de Cluny. Medieval Art in Paris. The Abbots of Cluny built their magnificent late Gothic town house in the heart of the Latin Quarter on the ruins of Roman baths. Now a museum, it houses medieval works of art – goldsmiths' work, carved altar pieces, ivories and fabrics. Place Paul-Painleve, (43256200). Closed Tue and lunchtimes.

Musée Rodin. Delightful 18th century town house - Hotel Biron - contains the life work of Auguste Rodin, who opened the way for modern sculpture. In the gardens his Thinker broods, the Burghers of Calais trudge to their tragic destiny and Balzac defies time. Closed Tue.

Martigny

Fondation Pierre Gianadda. Modigliani. Some 50 oils, as many drawings and some sculptures form an important retrospective of the Italian-born artist living at the beginning of the century in the feverish atmosphere of Montparnasse and Montmartre. (26 223978).

Brussels

Musée Royal D'Afrique Centrale Idel Lanchelevici - drawings of Africa.

Fondation pour l'Architecture. Bruxelles Ville d'Architecture 1890-1968.

KB Gallery. Exhibition of lace accessories and table linen. 17th century to late 1930s from private Flemish collections. Closed Mon. Grande Place.

Madrid

Centro Cultural de la Villa. Toulouse-Lautrec. Rarely exhibited private collection of some 44 drawings and water-colours belonging to the artist's family, 30 of the works are on public show for the first time.

Barcelona

Fundacion Miro. Alberto Magnelli retrospective. Works on show by this Florentine-born artist painted between 1910-1969.

Rome

Galleria Nazionale d'Arte Moderna. Fabrizio Clerici retrospective displayed in a labyrinth designed by the artist himself.

Palazzo Delle Esposizioni. Fascinating archaeological exhibition, which attempts to give a clear picture of Rome in the 6th century BC. Particularly fine are the decorative additions to the Etruscan temples, delicately worked jewellery and the ceramics (imported from Greece).

Turin

Castello di Rivoli. A retrospective of minimalist artist Mario Merz. The works are not, however, in any particular order: a glass with a neon light running through it, dating from 1967, sits on a recently made table. The artist has made witty use of the frescoes and stucco designs in this ex-royal palace of the Savoia family, now restored and transformed into a museum of modern art.

Florence

Palazzo Vecchio. The age of Masaccio: includes frescoes, sculptures and drawings by Paolo Uccello, Beato Angelico, Gentile da Fabriano, Donatello, Brunelleschi, Ghiberti and Filippino Lippi, and four paintings by Masaccio himself.

Venice

Palazzo Ducale. Titian. This exhibition organised jointly by the Venice local council, the Arts Ministry and the National Gallery in Washington, marking the 5th centenary of the painter's birth, is the largest for more than 50 years.

Essen

Museum Folkwang: Vincent Van Gogh and Modern Art. On the 100th anniversary of Van Gogh's death, this exhibition aims to display his influence on European modern art. Goethestrasse 414300, Essen 1.

Villa Huegel 15. St Petersburg around 1800. With 555 pieces on loan from Leningrad's state Hermitage Museum, the exhibition details the developments of Russia from a great empire to a European power. This unique show gives a clear view of the historical importance of the period of the Russian empire, with paintings, furniture, sculptures, costumes and porcelain.

Berlin

Martin-Gropius-Bau, Stresemannstrasse 110. Bismarck's Prussia, Germany and Europe. This exhibition in Berlin will be the first organised by the German History Museum, with around 1,000 pieces on loan from 250 different museums from all over Europe and the US. Otto von Bismarck, born 175 years ago in Schoenhausen, was the German Imperial Chancellor and Prussia's premier before he was sacked by the young Kaiser Wilhelm II 100 years ago. The current political changes in Europe, particularly in East Germany, underline the importance of this exhibition, which also attempts to explain what happened after the revolution of 1848.

Leipzig

Museum der bildenden Künste. Max Beckmann (1884-1950), pictures from 1905-1950. The director of Frankfurt's Städelmuseum Klaus Gallwitz and the Leipzig Museum's director Dieter Gleisberg have jointly organised the first big Max Beckmann exhibition in East Germany. Born in Leipzig, the painter taught in Frankfurt's Städel school from 1917-1930. In this exhibition are works from all over the world, including the renowned Synagoge and his final painting Behind the Stage.

New York

New York Public Library. More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books.

Washington

Hirshhorn Museum. Paintings, drawings and sculptures from the Bay Area figurative movement of the 1950s and 1960s include works by Richard Diebenkorn, Elmer Bischoff and sculptor Manuel Neri among the 88 pieces on view.

Chicago

Chicago Historical Society. A House Divided, America in the Age of Lincoln. Documents, mementos and personal effects of the Great Emancipator.

Tokyo

National Museum. Treasures from the Mii-dera. This Buddhist temple near Kyoto was founded in the 7th century and is famous for its sutras, paintings on silk and statuary. Closed Mon.

Mitsukoshi Gallery (Mitsukoshi Department Store, Nihonbashi). Flowers of Creation: Aesthetics and Curiosities of Edo. Among the art and artefacts of feudal Japan on show in this charming exhibition are painted screens, furniture and some stunning kimonos.

Tokyo Metropolitan Art Museum. Works from the new Japanese Gallery at the British Museum. Screens, scrolls, wood-block prints and ceramics – mainly from the Edo Era of the 16th to 19th centuries when Japan was closed to the outside world.

Idemitsu Museum. Noh Costumes. Noh is the world's oldest extant form of drama, dating back 600 years or so. The sumptuous costumes display the best of Japanese dying and weaving techniques and are themselves works of art. Also on display are masks, fans and stage props. Closed Mon.

Teien Museum. Mind and Body: the human form in Greek art. Sculptures and bas reliefs, mainly from collections in Greece and Switzerland, exhibited in an exquisite Art Deco former palace. Closed Wed.

Shoto Museum, Shibuya. Contemporary Japanese prints, featuring woodblocks, etchings, lithographs and silkscreens by 30 leading Japanese printmakers of today.

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Keep Saddam guessing

THE CRISIS in the Gulf will be debated in the British parliament this afternoon, and not before time. Five weeks have passed since the Iraqi annexation of Kuwait. During that period British policy has been set by the Prime Minister and her immediate staff and largely by those few of her political colleagues who can claim an immediate interest in its execution, principally the ministers in charge of foreign affairs, defence and, on the periphery, energy. The full Cabinet meeting arranged for this morning will be the first since the start of the summer recess, and therefore the first to address itself to the problem. It will hear a report from the Foreign Secretary, who has just returned from a visit to the Gulf states, but in the nature of things little can be done by the Cabinet itself: the broad strategy laid down at the outset is not likely to be changed now.

There is nothing improper about with the manner in which Mrs Margaret Thatcher has managed events to date. Any active Prime Minister who saw the need for a quick response would have done the same. To her credit, Mrs Thatcher perceived within a very few hours of the first news of Iraqi troops crossing the Kuwaiti border that western forces would have to be sent to the Gulf.

Swift initiatives

In the case of the Falklands it was thought constitutionally proper for the House of Commons to endorse the despatch of a task force for what looked from the outset likely to be a British invasion and recapture of the islands annexed by Argentina. In the present case the leading role has been adopted by the Americans. Britain has sent small air and naval contingents, but no troops. There is, as yet, no shooting war. The Prime Minister and the Foreign Secretary are accountable to the Commons for their conduct of foreign policy, but that policy is made by the executive, not the legislature. It is the same in the US. There was no early recall of Congress to debate the swift and effective initiatives of President Bush; Mr James Baker has this week been accounting for the decisions already taken.

Today's parliamentary debate is nevertheless important. It gives Mrs Thatcher an opportunity in which to set out the rationale behind her unequivocal support of the United States. In various public statements made over the past few weeks she has been quite clear about the immediate objectives of the blockade now being mounted in accordance with successive Security Council resolutions and stated US policy. Saudi Arabia and the other Gulf states must be afforded such military protection as they require. That is in hand. All foreigners who wish to leave Kuwait must be free to do so. Some are being set free; most are still being held hostage. Iraq must withdraw from Kuwait, unconditionally. The Emirate must be restored, as the legitimate government. These objectives are to be achieved peacefully, as a result of economic pressure, but the use of force is not ruled out.

Use of force

There will be some pressure on the Prime Minister to explain the meaning of "not ruled out." She should resist it. Mr Neil Kinnock was quite right to argue, as he did at the Trades Union Congress on Tuesday, that any use of force would be best conducted under the aegis of the United Nations. But the leader of the Labour Party would be mistaken if he insisted, as he may do this afternoon, that by this he means the specific imprimatur of a Security Council resolution. That would be to give China and the Soviet Union a veto; if President Bush wins the close support of President Gorbachev at this weekend's summit the veto would be Beijing's alone.

If President Saddam Hussein is to be defeated, "not ruled out" must include the possibility that a broad reading of Article 51 of the UN charter would allow for action taken in spite of a Security Council failure to agree on a resolution. There will be several voices raised against this proposition in the debate this afternoon and tomorrow. Mr Paddy Ashdown's will almost certainly be one. Mr Kinnock should stand firm with the Government.

Chips go down at Philips

TO THOSE who argue that Europe needs a strong indigenous capacity in microchips to compete successfully in mainstream electronics markets, Philips' decision this week to reduce its involvement in semiconductor research and production is a serious blow. The troubled Dutch company is not only the European industry leader but has long urged a concerted European response to the threat of technological domination by the US and Japan. With Philips in retreat, it may seem that an industrial keystone is crumbling.

Such pessimism looks overdone. First, Philips may be down, but it is not out. The bulk of the company's semiconductor activities remains intact, and it will continue to participate in many of the projects being undertaken by the Joint European Submicron Silicon (Jessi) programme, the $5bn joint industry project to develop advanced microchip technologies. Hence, the significance of this week's announcement may be as much symbolic as practical.

Second, and more important, Philips' willingness to scale back its commitment to operations which it has long regarded as sacrosanct is a welcome sign of a more hard-headed approach by its top management. The company is being compelled by its recent financial crisis belatedly to re-evaluate its portfolio of businesses, pruning those activities which, at best, offer only remote prospects of worthwhile profits.

Severe difficulties

Some may object that the company will be weakened if it is obliged to sacrifice long-term objectives to short-term exigencies. However, its current difficulties are so severe that it has little choice if it is to make a durable recovery. In any case no company, least of all in a capital-intensive industry such as electronics, can expect to go on raising adequate finance while displaying as little interest in returns to shareholders as Philips has done in the past.

In the longer run, Philips' competitive performance can only benefit from a more selective, profit-oriented approach. Despite attempts to focus on fewer "core" businesses, its spectrum of operations remains wide, including a full range of consumer electronics production, computing, lighting and medical systems as well as semiconductors. The increasingly specialised nature of many electronics markets, combined with Philips' own top-heavy bureaucracy, have made such diversification hard to manage.

Rather than tackling this weakness at its roots, Philips has turned increasingly to national governments and the European Commission for help. Its energetic lobbying has secured substantial subsidies and EC trade protection, particularly against consumer electronics products and semiconductors from Japan. Yet the resulting higher prices for consumers and costs for taxpayers have not been accompanied by any improvement in Philips' performance.

Explicit discrimination

Furthermore, these measures, by explicitly discriminating in favour of European-owned companies, are based on a distinction which is arbitrary and increasingly unworkable. In consumer electronics and semiconductors, most of the new production capacity coming on stream in the EC is not being built by European-owned electronics companies, but by Japanese and US manufacturers. This expanding presence will supply a growing proportion of Europe's technological needs in the future. To discriminate against the newcomers by trade measures and by excluding them from publicly-funded prestige programmes such as Jessi looks quixotic.

There is, none the less, a risk that officials in Brussels will respond to Philips' difficulties and the weakness of other parts of the European-owned electronics sector by seeking still higher levels of protection. That would only defer solutions to the industry's problems and increase the burden on European economies. The priority for the EC must be to forget about high-flown dreams of European technological self-sufficiency and concentrate on encouraging indigenous producers to adjust to the realities of competitive markets.

ECONOMIC VIEWPOINT

ERM and the Gulf

By Samuel Brittan

The first economic assessments of the consequences of the Iraq crisis were too complacent, while the assessments from policy and strategic thinkers were too alarmist.

There is a rare consensus about the basic economics. A rise in the oil price is inflationary from the point of view of the overall price level, but contractionary from the point of view of output and jobs.

One reason for complacency about the size of the effect is that a typical ready reckoner is stated in terms of the effects of a modest increase of, say, 10 per cent, in crude oil prices. In such a framework a 50 per cent rise looks very large. Yet, with crude prices within spitting distance of $30 per barrel, we have virtually had such an increase already.

The oil price increases to date do not represent the end of the process. A helpful attempt to examine the range of possibilities has recently been made by the Chief Economic Adviser to the Confederation of British Industry, Douglas McWilliams, in conjunction with Petroleum Economics.

The report* outlines four possible cases:

● Iraq backs down.

● A protracted economic and military stalemate occurs.

● There is a major military conflict.

● The West backs down and Iraq dominates the Gulf.

Only in the first and least probable "benign" case does the price of oil fall soon, before rising again later in the 1990s roughly in line with inflation.

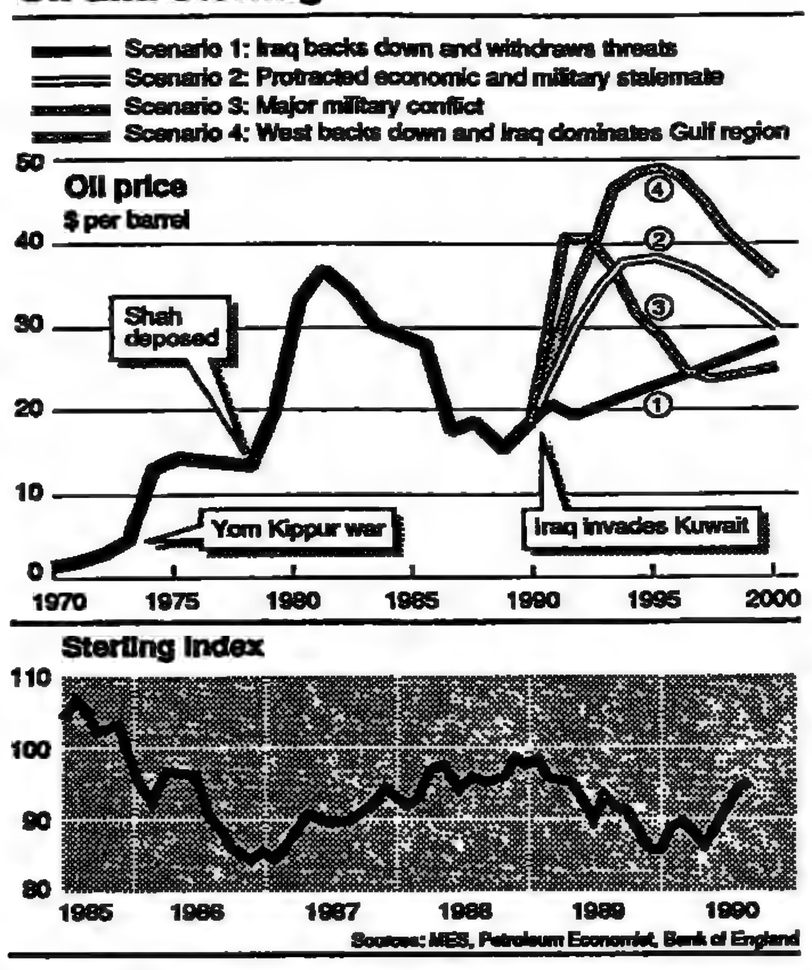
Now consider the fourth "surrender" extreme, in which a face-saving pretext is found that leaves Iraq in control of the whole Gulf area, including Saudi Arabia, but excluding Iran. Iraq would then control 20 per cent of world oil production and a much larger proportion of the low-cost oil that can be turned on and off.

The rulers of Iraq would then have to balance their desire for early price increases against their fear of excessively depressing world demand for oil. The report suggests that the oil price might then rise rapidly and exceed $48 by the mid-1990s before receding later in the decade.

Even then the real price of oil in constant dollars would remain well below what it reached after the deposition of the Shah. But real growth among Organisation for Economic Co-operation and Development countries stagnates to reach a low of ¼ per cent per annum in 1992 before starting a slow recovery to 2 cent by the middle of the decade. The *cumulative* loss of output over the decade in the industrial world is put at 4 per cent of annual GDP – less than in either of the previous oil crises. As an oil producer, the UK would be relatively less hit.

OECD inflation, assuming reasonably tight financial policies, would, on western "surrender" assumptions, reach a peak of 6 per cent in 1991 and 1992 before subsiding gradually to 4 per cent by 1995. In the British case, inflation measured by the vulgar, unadjusted Retail Prices Index would average nearly 7 per cent next year and nearly 6 per cent in 1992-93.

Oil and sterling



The adverse repercussions in eastern Europe and some Third World countries would be greater. But taking the McWilliams projections with the necessary grain of salt, it is hard to believe that the economic threat to the West justifies the horrors of war. Non-economists typically exaggerate the importance of particular geographical sources of supply.

Similar anti-economic reasoning was used to justify the shipment of arms which built up Hussein in the first place. Western prime ministers, foreign ministers and defence ministers gave in to the military-industrial complex because they did not have the imagination to see that resources tied up in the arms selling industry could have other uses if only governments had been courageous enough to withdraw support, as in the case of other sunset industries.

Military measures must be justified on political not economic grounds

This is not to argue for peace at any price. But resort to military measures must be justified – and justified up to the hilt – on other grounds, such as the Anthony Eden principle of resisting aggression, or to prevent a ruler like Saddam Hussein from acquiring a lead in biological, chemical and nuclear weapons. And the gain has to be worth the potentially very large human cost.

If we move from the surrender to the opposite "war" case, the economic consequences are, as might be expected, those of a short, sharp shock. Oil prices rise sooner and more quickly to reach $40 in 1991 and 1992; but they then fall back quickly towards or below the levels of the first benign case. Interest rates are raised in response to wartime inflationary pressures. As in previous oil crises, OECD output falls and the loss of output seems at first to be as great as in the "surrender" case. But the recession is followed by a sharp recovery and half the output loss is recouped.

I fear, however, that the "war" case does not make enough allowances for the costs of the return of East of Suez pretensions and other continuing military spending. Moreover, it is extremely unlikely that all the effort and expense will really entrench the pashas, sheikhs and emirs for whom American congressmen (if not British MPs) are likely to show an understandable reluctance to lose lives.

The most likely case, however, is the second on the list – that of prolonged stalemate. Sanctions are maintained, although with leaks, and military spending remains high. Stagflation is more prolonged than in any case other than surrender. World output grows only slowly until well into the 1990s, but does not actually drop. As in all cases except the "benign" one, interest rates are increased. World inflation – although it does not reach the "war" peaks – remains high for longer. Again the UK suffers less than other countries, but does not regain output growth of 2 per cent until well into the next parliament.

Nevertheless, in all cases British inflation rates fall by at least two percentage points, and sometimes more than three, between 1990 and 1991. Much of this is the automatic effect of the unwinding of mortgage interest and poll tax distortions. The inflation gap between the UK and partners drops substantially in 1991 and then continues to narrow.

So the official Madrid conditions for joining the European Monetary System are, if anything, advanced by the perversities of the Middle East, as other countries' inflation performance moves temporarily up towards that of the UK.

The OECD's August Report on the UK goes further and argues that if entry to the Exchange Rate Mechanism strengthens the credibility and hence efficiency of counter-inflationary policy then the UK should join without waiting for inflation to drop. Full membership "would force both sides of industry to face long standing problems of inflationary pay settlements" – a point just reiterated by the CBI.

A more political point is that any further delay will provide excuses for a counterattack by elements among the British Government and its advisers that are always looking for a pretext to block membership.

It is reassuring, so far, that sterling has been dominated far more by talk of ERM entry – both when it has risen and when it has come off the boil – than by the Middle East. But this immunity will not last for ever, especially if the Government gets cold feet on the ERM, or the Chancellor waits until a shooting war knocks him off course.

Although sterling is much less a petrocurrency than it used to be, the dangers of currency over or undershooting are increased by present uncertainties. Sterling is towards the top of the politically feasible range for entry. A further big rise would unnecessarily aggravate the developing recession, while not having enough long-term credibility to help against inflation. On the other hand a fall in sterling towards the bottom, just when ERM prospects are shelved – would destroy all the gains of the past few months. The time might then never seem ripe for entry.

Sterling's immunity will not last if the Government gets cold feet on ERM

Meanwhile, and despite the Middle East, the InterGovernmental Conference on Monetary Union will start in December and, outside the ERM, neither the "hard Ecu" nor any other British idea is even a starter. Contrary to what some City voices are saying, it is in times of uncertainty that sterling most needs an anchor.

**From CBI, Centre Point, 103 New Oxford St., WC1A 1DU; tel: 071-379 7400; fax 0420-23985.*

BOOK REVIEW

1989 under the microscope

CONTEMPORARY BRITAIN: An Annual Review 1990
Edited by Peter Catterall
Published for the Institute of Contemporary British History by Basil Blackwell, pp 484, £35

What were the seminal events and trends in Britain in 1989? In no particular order, the following might come to most people's mind: the recovery of the Labour Party, the realisation that after several years of sustained economic growth, the British economy was still not as sound as those of the country's main competitors, the general "greening" of attitudes towards the environment, and perhaps the re-emergence of transport policy as an area of concern.

Externally, there was the sudden dismantling of the Berlin Wall, which along with the changes in the rest of eastern Europe is clearly going to have an effect on British foreign and defence policy in the longer term. There was also the renewed debate about Britain in Europe: how far should national sovereignty be surrendered (or pooled) for the sake of greater European integration?

Other readers will have additions of their own and there are plenty to choose from in this book. More than 40 authors have come together under the banner of the Institute of Contemporary British History to produce their reflections on developments in their subjects last year. The intention is that such a publication will become an annual event. If so, the institute will be providing a valuable chronicle for future historians as well as a lively document for present-day readers.

Perhaps inevitably, the first volume in a series of this kind is the most difficult. There is no obvious starting point: no model for the writers to follow. There are too many subjects and too many authors dotting about all over the place. In an attempt to cover everything, new writing in the theatre receives only three paragraphs – perhaps a comment in itself. The chapter on science has only four pages. Developments in Scotland, Wales and Northern Ireland are covered in what amount to appendices at the end. Plainly this is not yet the right formula.

Nevertheless, there are some interesting chapters. One of the most powerful comes from David Butler, the veteran of studies of British general election campaigns. "The year 1989," he remarks, "was notable for a major switch in party support. A long period of Conservative predominance came to an end."

"For the men who manage British industry," writes Brennan Hiorns of Kleinwort Benson, "1989 will be remembered as the year budgets were missed for the first time for many years. It was the year in which politicians' aspirations outran the capacities of both plants and managers in the UK."

Hiorns is a writer I had not come across before. It is good to find him in this kind of quasi-academic company. He thinks that success will lie most with those British companies who diversify away from their home base.

1989 was also the 10th year of Mrs Thatcher's premiership. In some ways she still comes out well, certainly up with the times and capable of changing the climate of political debate. She made two speeches in the second half of 1988 which had a marked influence on the year ahead. One was to the Royal Society on environmental questions where she began to turn green; the other was her Bruges speech on the future of Europe as she saw it. Much of what was said and done in 1989 was related to those matters.

There were some trends, however, which the Prime Minister did not pick up so fast. One was the sudden interest in the inadequacies of British transport. The chapter by P B Goodwin, Reader in Transport Studies at the University of Oxford, on this subject is among the best in the book. Accidents had something to do with it: Zeebrugge, Kings Cross and Clapham, for examples. But that was not all. Goodwin thinks that there was a new recognition of the links between transport, the economy and the environment which will be lasting. If so, there will be enormous implications for public expenditure. Goodwin also notes the rising interest in road pricing as a feasible policy option.

In 1990 – so far – the equivalent to the renewed interest in transport seems to have been a splurge of statements from, say, Lord Beloff on the right to Sir Claus Moser on the moderate left expressing dissatisfaction with the British education and training system. It is not always clear why such outbursts occur almost simultaneously. After all, the education system in mid-1990 cannot have been much worse than it was last year, and one might have been forgiven for the impression that the Government had spent much of the last few years working on improvements. Still, occur they do and it is an important part of a work like this to plot the trends as well as the responses.

The next volume might have a rather longer introduction by Peter Catterall, the editor, who allows himself only eight pages for his summary of the year in perspective. There should be fewer authors, and the subjects should be grouped more closely together under general categories like social policy, economic policy and external affairs. But this is the kind of venture that we can only wish well. It will require time to prove itself.

Malcolm Rutherford

IBM Tries Again

■ For A.B."Tony" Cleaver, chairman and chief executive of International Business Machine's UK subsidiary, the launch yesterday of the company's new and important mainframe family, the System/390, had a taste of nostalgia.

Cleaver helped with the launch 26 years ago of the IBM System/360 family, an event which transformed the nascent computer industry, securing IBM's position as the world's dominant mainframe supplier at a stroke.

IBM, now hard-pressed by its increasingly aggressive Japanese competitors, hopes that yesterday's announcement will prove as much of a milestone as 1964 – and help reverse the erosion of its share of the world mainframe market.

Cleaver, now 52, sees the principal change in the industry as a shift away from the worship of technology to a concern for a customer's business problems. He accepts that in the sixties technology was the challenge. "Programming was a little like doing crossword puzzles".

Cleaver recalls, however, that even in those early days, he had a healthy disrespect for technical gee-whizzery. He remembers having his knuckles rapped when a customer, showing his mastery of the jargon, asked if a system was "monolithic".

Did it really matter for data processing, Cleaver retorted, if it was monolithic or palaeolithic?

One driver

■ Economists have been very busy with their econometric models in the last month churning out often baffling simulations of the impact the Gulf crisis will have on the world.

So perhaps it is not so surprising that no one has noticed that the doyen of econometricians, Simon Wren-Lewis, has abandoned his macromodel.

The device (all inside a normal-looking computer) is still sitting in the offices of the National Institute of Economic and Social Research in Dean Trench Street, while its inventor has left the NIESR to be a professor at Strathclyde University.

The NIESR confirms that Wren Lewis is a brilliant economist it is sad to lose to academe. And Andrew Britton, the director, denies any doctrinal differences led to the departure of Wren-Lewis, a market economist, from the non-monetarist, post-Keynesian portals of the NIESR.

But this episode does raise a worrying question for policymakers at the Bank of England, the Treasury, and the London Business School, all avowed users of the Wren-Lewis creation.

The Bank says loftily that it is not the least concerned. "Models are dynamic and it would be surprising if they did not change with time."

OBSERVER

"I expect a Latin American fleet will be on its way to the Gulf any day"

Good Monet

■ The Royal Academy, with its exhibition of the "series" paintings by the first Impressionist, Claude Monet, (all those haystacks, Rouen cathedral &c.), which opens tomorrow, seems set to wipe out its worrying £500,000 deficit. For the first time you can book a ticket in advance from agencies around town.

Digital, with a $1.5m. sponsorship, has covered most of the organisational costs in bringing the pictures to London. from previous displays in Boston and Chicago. With an expected 4,500 visitors a day (three-times the break-even figure) the RA is set for its biggest success since its Great Japan exhibition of 1982.

But the relief is likely to be brief. The RA is also on the point of cancelling an exhibition for the first time – Egon Schiele and his Contemporaries. Potential sponsors are deterred by some of the explicit nudes of this turn-of-the-century Viennese artist.

They might recall that Monet was once regarded as shocking.

Top talk

■ Television interviewer David Frost and Martin Sorrell, chairman of the advertising and marketing group WPP, have teamed up for an investment in the video training industry.

Together they have bought the assets of Results Training a company best known for its video training programmes for sales teams. And they have gone right to the top for their first four new productions – half hour interviews by Frost with leading businessmen Lord Hanson, Mark McCormack, Sir James Goldsmith, and Sir John Harvey-Jones.

The thoughts of the mighty don't come cheap at £199 for one cassette and £650 for the four.

Sir James is probably the most iconoclastic: "The biggest single handicap a person can have is to go to university," says the billionaire, *before* laying into the bureaucratic nature of modern day bankers.

Lord Hanson: " The answer is first of all you have to want to do it. A lot of people think about it but don't want to do it."

Sir John Harvey-Jones says he can tell within seconds whether a factory is well or badly run just by walking around it.

How much did the four captains of industry get paid for sitting down to be grilled on their business secrets. "They didn't get a fee, they got an honorarium," says Frost, without explaining how the two differ.

Spare a fag?

■ The cigarette shortage in the Soviet Union is now so severe that the country is asking Western tobacco groups for quotes on a consignment of 4bn cigarettes.

And such is the Russian lifestyle since the iron curtain has lifted, that the buyers are particularly keen to get American brands.

Pat Sheehy, chairman of BAT Industries, one of the largest suppliers of cigarettes, revealed yesterday that his group would be offering its "value for money" US brands. Though, he stressed, the deal will only go ahead if BAT can make a profit out of it.

Sheehy expects to end up with some tangible commodity in a barter deal. Roubles are unlikely to be acceptable.

Over-herd

■ Two cows were chatting in an English field. "What do you think about this mad cow disease?", one asked the other. "Oh", said the second cow, "It doesn't affect us ducks".

The past casts its long shadows

Legacies from the interwar period hang over East Europe's new democracies, says Judy Dempsey

An ominous cloud is hanging over the young democracies of eastern Europe. It is called the past – not the last four decades of communist rule, but the period between the first and second world wars. The revival of nationalist feelings and old territorial disputes – which helped to destroy the region's brief experiment in democracy during the interwar period – could now undermine these countries' search for stable new political institutions.

As democratisation proceeds apace, nationalist aspirations are coming to the fore and politicians from Poland to Romania are skilfully exploiting them:

● In Poland, Mr Lech Walesa, the leader of the Solidarity trade union movement, is running for the presidency. But Mr Walesa's critics say that he wants to invest the presidency with powers resembling those held by Marshal Josef Pilsudski. Pilsudski, who staged a coup in 1926, regarded himself as the educator of the Polish people who, under his guidance, would regenerate the Polish nation. In the end Pilsudski's authoritarian presidential rule undermined Poland's constitutional, parliamentary and political institutions. Critics keep drawing parallels between Mr Walesa's race for the presidency and the Pilsudski era.

By the time the Red Army liberated eastern Europe in 1945, the region was ripe for communism

● Czechoslovakia's democratic experiment is also influenced by the past. While Poles wax lyrical over Marshal Pilsudski, Czechs revel in the writings of the late T G Masaryk, the country's first president. His name was splashed along the walls of Prague during last November's revolution. President Vaclav Havel is emulating his hero by taking riding lessons.

But behind the symbols of the past lies a fragmented reality: the age-old question of the relationship between Czechs and Slovaks. Last month thousands of Slovaks seeking independence gathered in the Slovak town of Ruzomberok. There, 10 Slovak nationalist parties demanded the implementation of a eight-point programme calling for a separate, sovereign, independent Slovakia. They also commemorated the death of Andrej Hlinka, the arch-nationalist who awakened Slovak national consciousness during the 1930s with his calls for separatism from Prague.

They ignored the fact that Hlinka's guards were modelled on the Nazi SS. Weeks earlier, they unveiled a statue to Josef Tiso, the president of the wartime independent Slovakia later executed as a war criminal. Despite their ignominious backgrounds, these two historical figures are seen as useful symbols in Slovakia's bid for independence.

The federal government in Prague had already presented a compromise in the form of a loose federal arrangement which would give Slovakia greater autonomy in education, language, communications, trade and even in foreign affairs. But the compromise, thrashed out during a secret meeting of Czech and Slovak prime ministers at Trencianske Teplice in August, was rejected by Slovak nationalists at Ruzomberok. They want complete independence from Prague, even though this could destabilise the Czechoslovak Federation.

● In Romania, the ruling National Salvation Front is involved in a bitter dispute with the Hungarian Government over the fate of the 2m-strong ethnic Hungarian minority. The Hungarians, who for centuries have lived in Transylvania, want the restoration of the full cultural and ethnic rights denied them by the former Ceausescu regime. Despite promises made by the Front last December, demands by the ethnic Hungarians have not been addressed. Instead, the Front is now engaged in a bitter exchange with the Hungarian Government, which it accuses of seeking to reclaim Transylvania, despite denials from Budapest.

● In Yugoslavia, nationalism is contributing to the break-up of the present federal structures. Serbia, the largest of the Yugoslav republics, appears determined to quash the rights of the ethnic Albanian minority in Kosovo, as well as the Croat and Hungarian minorities in the small northern province of Vojvodina.

● In Bulgaria, the ethnic Turks whom Mr Todor Zhivkov, the country's former communist party leader, tried forcibly to assimilate, are continually under pressure from Bulgarian nationalists who oppose the granting of any special status to this minority.

● In Hungary, the fate of the Hungarian ethnic minorities in neighbouring Romania, Slovakia and Yugoslavia is exploited by the nationalist wing of the governing conservative Hungarian Democratic Forum. The Forum, led by Mr Jozsef Antall, the Prime Minister, is an uneasy coalition of Christian, liberal and nationalist forces inspired by the Hungarian populist movements of the 1930s.

What forces lie behind the nationalism which is challenging the young democracies in eastern Europe?

First, there is the legacy of communism. The communist regimes suppressed all ethnic/nationalist aspirations in the belief that they were remnants of the past and would disappear. But recent developments in the Soviet Union and in eastern Europe prove otherwise. Second, there is the legacy inherited in 1918 by the countries of eastern Europe after the carve-up of the Habsburg empire.

At the 1919 Paris Peace Conference, diplomats created out of the empire 12 sovereign states, all of them established on the principle of ethnic homogeneity. But even with the creation of these states, certain ethnic groups were excluded from achieving political recognition in the form of independent statehood. Slovakia is a case in point.

Other nations, such as Hungary, felt they had been forced to concede too much territory (two-thirds) and too many Hungarians (3m) to help make up the new republic of Czechoslovakia. Understandably, the air in eastern Europe was ripe for recrimination. Young, radical ideologues, anxious to introduce reforms, thrived on the dislocation, resentment and centuries of imperial rule.

Spurred on by the 1917 Bolshevik Revolution, radical left-wing intellectuals such as Bela Kun, the Hungarian communist, seized power. They tried to oust the feudal aristocracy, introduce sweeping land reform, and create political institutions such as an independent legal system and a free press which had hardly existed before 1918.

But once in power, their rush towards change created panic among the conservative peasant and gentry classes which made up most of the population. Their fear of the Red Threat and the injustices of the peace settlement were exploited by nationalist and populist movements at the expense of strengthening the fragile democratic institutions.

The world economic crash of 1929, the subsequent depression and the rise of Nazism and anti-semitism, coupled with disillusion with the lack of reform, catapulted them into power from the early 1930s onwards. The tiny light of democracy began to fade.

By the time the Red Army liberated eastern Europe in 1945, the region was ripe for a communist takeover. The political, economic and intellectual elites had been destroyed. The weak civil institutions which had been completely undermined during the 1930s, collapsed under the weight of the communists. The experiment with democracy was over. It is only now that the governments of the region can start the long rebuilding process.

The task is daunting, not only because these new governments must accommodate the challenge of nationalism. Apart from their inexperience, they do not have an indigenous political elite which can address nationalist aspirations or channel them into civil institutions. Such elites were destroyed during the second world war; and the communists destroyed the institutions. The governments must start from scratch.

Second, eastern Europe's ailing economies, its shattered infrastructure, the prospects of unemployment arising from the reforms, are likely to inflame nationalist and populist tendencies. The parallel with the 1930s is striking. Against this background, the plea by east European economists for western aid is even more understandable: it is a call for help to defuse the tensions that are now reverberating throughout the region.

"We look at Switzerland and other multi-ethnic societies and see how different ethnic groups can co-exist," said one Hungarian academic. "If only we were prosperous and had strong democratic institutions, the rallying call of the nationalists would fall on deaf ears."

Doubts surround the emergence of independent power producers in the UK, writes David Thomas

Pioneers under siege

The final go-ahead for one of the world's biggest gas-fired power stations is expected to be announced within the next month by Enron Power Corporation of the US and Imperial Chemical Industries, the UK chemicals company. The station, to be sited at ICI's petrochemicals complex at Wilton on Teesside, is expected to cost more than £750m to build.

With a capacity of 1,725MW, the station will mark the coming of age of ambitious plans to encourage an independent power-producing sector in the UK as part of the Government's electricity privatisation programme. The idea is for a new wave of independent power producers to challenge National Power and PowerGen, the successors to the old Central Electricity Generating Board (CEGB).

On the face of it, that objective is well within reach. Scarcely a month goes by without a new proposal for an independent power station. Backers of the projects have come from a range of blue chip companies, including Texaco which is studying plans for a £450m station capable of generating 1,000MW-1,100MW at its oil refinery in Pembroke, west Wales and Courtaulds which last week announced plans for a £100m station with a 220MW capacity at a site near Derby.

Nearly all the independent producers are planning to build combined cycle gas-fired stations. A relatively new technology, at least in the UK, these stations are cheaper and quicker to build than the large coal and nuclear plants favoured by the CEGB, although a sustained rise in oil and gas prices because of the Gulf crisis could cut into their margins.

The independents are also one of the main levers for opening the previously closed UK electricity generating industry to foreign companies. Thus, Enron is ICI's partner in the Teeside project; and Canada's CU Power is a partner in Thames Power, which wants to build a £500m station with 1,000MW of capacity on the Thames near London.

Yet many in the industry view this tumult of activity sceptically. After all, only one sizeable independent station is actually under construction – the £130m, 220MW station at Roosecote in Cumbria being built by Lakeland Power.

Pessimists point to the collapse of several of the projects so far mooted. "So many of them seem to disappear like the morning mist," says Mr Michael Cornish, Thames Power's chief executive.

Simple arithmetic seems to dictate that many will have to fade away, since the nationalisation years have left Britain with a surplus of generating capacity.

County NatWest, brokers to National Power, calculated in June that 18 new power station projects, with a combined capacity of up to 11,070MW had been announced by then. But it also reckoned that no new power stations would be needed on demand grounds before 1995-96, although some 3,000MW-4,000MW of cheap, environmentally friendly gas-fired station could be needed by 1995 to allow the closure of old coal-fired stations. Enron alone would account for about half that quota.

Many in the industry view the tumult of activity sceptically

Many of the problems besetting the pioneer independent power producers are of the kind which face almost any large construction project. Mr Richard Stubbs, Lakeland Power's managing director, runs through the long list of governmental agencies from which he needed consent. "In retrospect, if we'd been aware of these problems, we would never have started," he says wistfully.

However, the more serious worry is that National Power and PowerGen will use their overwhelming dominance to keep out the independents. Fears that the two established generators will be able to manipulate the new electricity market, known as the pool, lie at the heart of these concerns.

Nothing in the regulatory framework prevents National Power and PowerGen bidding their power stations below cost into the pool in a way designed to kill the opposition, although such a strategy would have a considerable short-term cost. Indeed, Mr Stephen Andrews, director of the Association of Independent Electricity Producers, alleges that the electricity supply contracts nailed into place by the Government in the run-up to privatisation will keep pool prices low and hence discourage competition.

It is not yet clear whether such fundamental doubts about the new market are justified. Yet there are plenty of more straightforward weapons which National Power and PowerGen can wield against the newcomers.

Mr John Wilson, electricity analyst at UBS Phillips & Drew, one of the few large City firms which is not a broker to an electricity company, points to the advantages of National Power's and PowerGen's size. They can secure more favourable supply contracts for fuels such as gas. They can finance their new stations more cheaply than the independents. And so on.

Moreover, National Power and PowerGen have both announced plans to close some older coal-fired stations and simultaneously build new gas-fired plant. This strategy seems calculated to send a cautionary message to budding independents: the big generating companies will provide most of the little new capacity needed in the next five years.

Yet the more sanguine independents say privately that they expected rough tactics from National Power and PowerGen. They remain optimistic about their prospects for one reason: the regional electricity supply companies need them.

Only by encouraging a competitive third force can the regional companies be certain that National Power and PowerGen will be forced to cut costs. Moreover, by taking equity stakes in the independents, the regional companies can open up a new income stream for themselves.

For their part, the independents need the regional companies to sign long-term supply contracts for their electricity – a prerequisite to raising project finance. That explains why almost every independent power project so far announced has at least one regional company as a partner.

It also explains the guarded optimism of the pioneer independents. "There will be a market for independent generators, though in reality it can only be a small percentage of total UK electricity requirements," says Lakeland's Mr Stubbs.

LETTERS

Separate trading needed

From Mr John Yaxley.

Sir, I read with surprise Christopher Smith's article "Hong Kong should plan for full economic union with China" (September 3).

The provisions in the Joint Declaration, now embodied in the Basic Law, are based on the fundamental belief that Hong Kong's future stability and prosperity depend on a continuation of its present legal and governmental systems, including full autonomy in external economic and trade relations and a separate customs territory status.

We have been exercising this autonomy in trade matters for many years. We have always conducted our external trade policy separate from foreign policy considerations and deal autonomously with our trading partners. Our trading partners accept that this will continue beyond 1997, notwithstanding the reversion of Hong Kong to Chinese control.

History shows that economic co-operation between two separate customs territories is not dependent on economic integration or any form of customs union. Hong Kong businessmen have, over the past 10 years or so, increasingly and successfully invested in and traded with China, particularly Guangdong. This has not required any form of economic integration or customs union.

Our continued separateness from China in terms of trade policies and customs administration is one manifestation of the concept of "one country, two systems." Hong Kong is committed to a capitalist system based on the free operation of market forces and guaranteed by the Joint Declaration and the Basic Law. China is committed to the socialist system. So long as these commitments remain, it is just not possible to contemplate the sort of economic integration Christopher Smith envisages.

To pursue, as he suggests, "an experimental economic union" between Hong Kong and Guangdong, with further progress dependent on "political and economic developments in the PRC itself, including the establishment of genuine democratic principles and a comprehensive legal system," is to discontinue the well-tried systems which have given Hong Kong many years of economic development and which have benefited China and our trading partners in the process. This is not what we in Hong Kong want.

The future prosperity of Hong Kong lies in the faithful implementation of the Joint Declaration: a binding international agreement. There is no basis for suggesting that the Joint Declaration would be "scrapped, fudged or amended to cope with the situation as it unfolds." Both governments have made clear their commitment to discharge their obligations under the agreement.

A key component is the provision of a stable environment for investment by preserving existing systems. This seems infinitely preferable to experimenting with the unknown.

John Yaxley,
Hong Kong Government Office,
6 Grafton Street, W1

No Russian economic miracle

From Mr Richard Lucas.

Sir, Anatole Kaletsky has become unduly optimistic in reporting possible Yeltsin/Gorbachev reform as a choice "between market and chaos" (August 31). The nationalities question within the Russian republic (the RSFSR) is too bitter to allow a rapid sale of assets to go through without entrenched opposition from many of the 16 autonomous republics, five autonomous regions, 10 autonomous areas, six territories and 49 regions that make it up.

In the nationally homogeneous countries of eastern Europe, where communism has been doing its damage for 40-odd years rather than 73, privatisation (which must address the "who owns what" debate) has been very controversial. Privatisation without knowing from whom the assets are to be purchased, or who can give them away, cannot take place.

Take the example of the £2.3bn contract between Doctus plc and Tomsk, under great uncertainty because of the Russian Supreme Soviet's review of all deals involving the natural resources of the RSFSR. This contract would have been excellent for Tomsk region because it would have received perhaps 85 per cent of the value of its timber in hard currency, instead of useless roubles, and clearly good for Doctus – but a disaster for Moscow. Every region in the RSFSR would like to settle such deals. Were they able to do so, the significance of Moscow as the centre of the RSFSR, let alone the USSR, would dwindle.

A battle over who owns these vast resources cannot be rushed through in a state of consensus, and Doctus and other pioneering western firms cannot be expected to invest their energies and money into this legal vacuum. It is unrealistic to expect Mr Yeltsin and Mr Gorbachev can settle this issue with a few edicts.

Unlimited economic sovereignty, which Mr Yeltsin and Mr Gorbachev are apparently going to offer, is meaningless without political sovereignty – after all, property rights are laid down by law.

Mr Kaletsky argues ("Soviet Union prepares for longest 500 days," September 3) that ". . . fantasies keep on turning into realities in eastern Europe. So why not expect an economic miracle from Boris Yeltsin?" But more successful eastern European countries, without comparable levels of unrest and disunity (let alone civil war), that have had properly democratic elections and whose governments are genuinely representative, are undergoing very painful restructuring which addresses all the economic problems that Yeltsin's plan is supposed to avoid. One-off price rises end queues but cut living standards; deflation stops hyperinflation but causes unemployment.

The immediate prospects for economies producing things that nobody wants are terrible under market conditions. Mr Kaletsky's expectation of an economic miracle is a fantasy.

Richard Lucas,
PA Cambridge Economic Consultants,
62-64 Hills Road, Cambridge

To tax can be to destroy

From Mr Roderic Ancastle.

Sir, Michael Prowse (August 29) says the free market gospel of the Institute of Economic Affairs has become received wisdom nearly everywhere. But he suggests that "if a democratic government agrees to a top rate of tax of, say, 60 per cent, this can hardly be construed as a threat to freedom or an arbitrary use of power. It is what we collectively have willed." (He avoids mentioning the top rate of 98 per cent which was in force in the 1970s.)

But democracy and freedom are not synonymous. Chief Justice John Marshall's assertion that "the power to tax is the power to destroy" applies to democratic governments as much as to any other.

Total taxes now take 50 per cent of the national income, compared with 45 per cent when the present Conservative Government was first elected in 1979. This hardly seems to represent a triumph of the free market.

Mr Prowse may be tempted to argue: "So what? Collectivaly we have willed it." But the Conservative election manifesto in 1979 said: "The state takes too much of the national income; its share must be steadily reduced." So presumably some of those who voted Conservative in 1979 may have been "willing" total taxes to go down?

Roderic Ancastle,
113 Randolph Avenue, W9

Accounting for inflation

From Professor D.R. Myddelton.

Sir, Mr Ian Brindle of Price Waterhouse is not entitled to say (August 30) that the Accounting Standards Committee (ASC) failed to seek reasonable consensus on inflation accounting. There was a long period of consultation between 1968 and 1973, prior to the issue of Exposure Draft 8 on "Accounting for changes in the purchasing power of money." The proposals for constant purchasing power (CPP) accounting received support from the Confederation of British Industry. Even the Sandilands committee (in paragraphs 401-403) recognised that there was a good deal of support for CPP.

Mr Brindle may be thinking not of inflation accounting (CPP), but of current cost accounting (CCA). This, as SSAP 16 itself made clear, was "not a system of accounting for general inflation." But CCA was the result of a government committee's proposal, which the Government then required the ASC to try to implement.

The ASC and the accountancy profession is by no means blameless, but the main responsibility for the unsatisfactory progress on inflation accounting lies with the Government. The Government has caused the inflation, and the Government sabotaged CPP accounting.

D.R. Myddelton,
Cranfield School of Management, Bedford

FINANCIAL TIMES
Thursday September 6 1990

Sheep fail to keep the wolf from the door

Falling prices and failed crops are ruining French farmers, writes George Graham

THE postman does not reach the outlying farms near Flavignac, in the Limousin region of central France, until after 1pm. These days, the wait can be a painful one, as drought and plunging meat prices have brought many of the region's farmers close to financial disaster.

"Here come the cheques," calls out Mr Jean-Robert Frugier, a 36-year-old sheep and beef cattle farmer, as the postman's van draws up.

"Or the bills," retorts Mr Daniel Pradier, his more cautious neighbour.

The Limousin hills, covered with chestnut and oak, still appear green but two years of drought have taken their toll. The maize crop this year has been particularly hard hit, creating problems for winter feed supplies.

"Normally, we buy in only proteins for the winter, but this year I will have to buy cereals, as well. I am 30 per cent short on my maize stocks," says Mr Pradier.

The drought follows a broader market crisis for Mr Pradier, who keeps a flock of 370 ewes on 40 hectares near Flavignac. He calculates that the prices he receives for his lambs have fallen by 8 per cent over the last year and he now receives little more than FFr400 ($76.48) per head. Wool has slipped even more disastrously, with prices dropping to FFr5.80 a kilo from FFr11.00-FFr11.60 a year earlier.

In 1988 Mr Pradier and his wife made an operating income of FFr120,000. Last year, this dropped to FFr94,000, out of which nearly two thirds had to cover loan repayments.

"This year, with lamb prices down 8 or 10 per cent, most of the farms around here will have virtually no income at all," he says.

Mr Frugier faces an additional problem with the 30 Limousin cows he raises on his 71-hectare rented farm, alongside 280 ewes. He used to sell unfattened calves to Italy at FFr5,500 a head, but now faces competiton from Polish and Hungarian calves at FFr2,000 a head.

"At FFr2,000 I might as well shut up shop straight away," he concludes.

It is market conditions like these that have driven thousands of French farmers to waylay British and German meat lorries and to invade government offices across the country in the last few weeks.

The two men understand the desperation that has driven fellow farmers to burn beef carcasses or douse lambs in insecticide. They draw the line, however, at burning lambs alive, as happened at Thouars, in western France, in a recent incident which has poisoned relations between French and British farmers.

"I will take part in demonstrations, stop lorries, make meat inedible, but burning alive, no. If one day that happens in a group I am with, then I am finished with farm unionism," Mr Frugier says.

Around Flavignac, many farmers are aged 55 or over. With conditions like this, their children are deserting the land to look for jobs in Limoges or further afield in Paris.

French farmers recognise some structural problems, such as the splitting of farms because of the inheritance laws.

Mr Frugier also recognises a more commercial mentality in his British counterparts.

However, they see themselves as burdened down by the effects of the European Community common agricultural policy, which they see as unfairly benefiting British livestock farmers.

Mr Pradier believes that with an average of 1.6 lambs per ewe per year, he can claim to be a highly productive farmer.

However, he and Mr Frugier say they cannot compete against the way EC subsidies favour British sheep farmers and a multitude of advantages such as cheap common grazing, or against the cheapness of sterling, which favours their UK competitors.

"Why don't they join the monetary snake? Then we'll see," comments Mr Frugier.

CLOSER to home, French farmers complain of the burden of fixed costs, including social security contributions – still calculated for farmers on a fixed basis in line with acreage, although the system is gradually changing to one based on actual income – and debt repayments.

Mr Frugier sneers at the grace period for social security payments announced last week by Mr Henri Nallet, the French agriculture minister, as part of a FFr1.2bn aid package for livestock farmers. He has already had to pay FFr28,000 of the FFr31,000 contributions he owes for this year.

Similarly, he is sceptical about the impact of the low-cost winter feed Mr Nallet is offering farmers in drought-stricken departments, including his own Haute Vienne.

The only element of Mr Nallet's aid package that really pleases Mr Pradier and Mr Frugier is the offer to take over interest payments on debts, at a cost to the state of FFr250m.

Limousin farmers complain that Credit Agricole, the agricultural bank, is now less interested in loans to them than in mortgages to British holiday home buyers.

Every farmer in the region is indebted, however, and Mr Pradier calculates his annual repayments of capital and interest at FFr1,850 per hectare.

Far from common agricultural policy, Page 9

French police round up Dutch sheep set loose yesterday by farmers angry over meat imports

THE LEX COLUMN

The central banks mark time

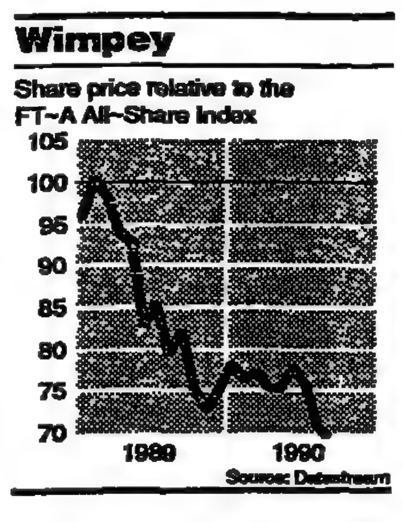
Central bankers always like to give the impression of being one step ahead of the markets rather than one behind. So the Japanese authorities must feel quietly satisfied with the initial response to last week's rise in the official discount rate. While other central bankers dithered over the Gulf crisis, the Japanese jacked up their bank rate to its highest level in eight years. The yen has strengthened and the bond market has stopped falling, at least for now. The record to date of the other two economic superpowers is less impressive.

The West Germans have found themselves in the embarrassing position of having to cancel the first unity bond auction because they did not like the bids. Meanwhile, the US Federal Reserve ought to be considering whether there is any point bowing to the increasing clamour for lower interest rates. Last July's ¼ percentage point reduction in the Fed Funds rate has been more than offset by the fall in the bond market; and there is a good chance of the same happening again if there is a knee-jerk reaction to a weak set of US employment numbers tomorrow. The best bet would be for the Fed and the Bundesbank to keep their heads down and do nothing for a while.

British builders

The worrying thing about the slump in the UK building sector is not so much its depth as the way it is getting longer and broader. Last summer's complacent consensus forecasts that UK construction output would dip a mere 1 per cent in 1990 went into the analytical dustbin months ago. The additional factor in yesterday's corporate interims was the evidence of how the recession is rolling from UK housebuilding into the materials business and commercial building.

The housing market-driven 25 per cent drop in Amec's taxable profits and the 17 per cent fall in Wimpey's house sales are headline-grabbers. But Wimpey's battening-down of the hatches in property development is a sign of the storms yet to come in commercial construction, which accounts for over 50 per cent of the industry's work-load. As projects like Wimpey's own Little Britain scheme near completion, so the gap in order-books could look very wide. The other potent indicator is the 14 per cent slump in Blue Circle's UK cement tonnage. This is clearly not just due to a soft housing market; and it also raises the question of how much pressure is mounting on volumes and prices at the top end of the production chain, in aggregates.



The same argument could have a bearing on the view that the building materials companies with continental European exposure like RMC and Steetley are safe, given continued boom conditions there. It could be that the stock market is as wrong about those territories now as it was last year about the UK.

Hillsdown

Looking beyond Hillsdown's interim figures, the promised vista is of a truly international food company with nearly half its earnings from overseas and 90 per cent from food. But despite the welcome narrowing of focus, comparison with Unilever or Nestle would be premature. For a start, earnings this year may not grow at all. The interim figures show part of the reason: the extraordinary volatility of individual bits of the business, the general effect being that something is always going wrong.

Thus while poultry and eggs, last year's casualty, show an eightfold recovery in profits, the housebuilding and property division is down by 47 per cent. Hillsdown cannot be blamed for the state of the UK property market, any more than it can for the downturn in furniture or the effect of BSE on beef sales. But despite the fact that within its meat operations, at any rate, switches in consumption tend to offset each other, Hillsdown cannot properly claim to be a defensive investment in today's markets.

By 1991, conditions in housing and furniture might have improved enough to allow Hillsdown to exit gracefully, while margins at the important new Canada Packers acquisition should be starting to respond to the group's traditional skills. But despite Hillsdown's growth image, it is worth recalling that the shares have outperformed the market since their 1985 flotation by just 11 per cent. On a prospective multiple of 8.4 at yesterday's 252p, they might be on the cheap side: but not much.

BAT

The old questions about BAT's apparent under-valuation by the stock market refuse to die. Tobacco, by its nature the ultimate cash flow business, is booming for BAT as never before; Farmers has produced £500m of profits since January 1989, which is more than ample to cover its financing costs; and with the sale of the Horten department store still to come, the balance sheet is getting stronger all the time. And yet BAT is yielding 8.1 per cent prospectively, or about the same as the clearing banks.

The market may simply be worried by the UK insurance outlook, so painfully illustrated by Sun Alliance's £112m pre-tax loss, or by the fact that falling equity markets erode BAT's profits because of Eagle Star's accounting methods. But none of these seem like a sufficient explanation. More likely, investor sentiment is still weighed down by the old worries about tobacco and BAT's hunger for acquisition.

Williams

Yesterday's 6 per cent drop in Williams Holdings' share price was a measured response to a fairly grim set of interim figures. Expectations for full year pre-tax profits now range from £132m downwards, or a fall of at least 14 per cent. Even if they were to rebound to £148m in 1991, earnings per share would be the same as in 1988. This is not what defensive conglomerates are supposed to be about.

Williams would doubtless hope for better than that, based on sharper recovery in UK home and garden markets if base rates come down next year. But this is only a quarter of the business at best; nor is it clear that the UK home and DIY markets will ever return to the high days of the late 1980s. And while the group has zero borrowings, it also plans to resume predatory acquisitions next year, which may not be the growth business it was either. On over 9 times earnings at 217p, the shares scarcely look appealing.

De Klerk floats multi-party coalition plan

By Philip Gawith in Johannesburg

A MULTI-PARTY coalition including blacks and whites would form South Africa's first post-apartheid government if talks between Pretoria and the African National Congress, the main black political movement, result in free elections.

President F.W. de Klerk yesterday signalled that such elections would lead to the creation of a government of national unity, echoing comments earlier this week by Mr Nelson Mandela, ANC deputy president.

Mr Mandela said on Monday that the first non-racial government would consist of various political parties, even if the ANC won a majority "so that a new government would be representative of all political opinion in order for all people to be confident that they are adequately represented."

Mr de Klerk, addressing the Orange Free State congress of the ruling National Party, said that a professional defence force, a bill of rights and a free market system were essential minimum conditions to be met before the National Party would approve a new constitution. "The political system of the new South Africa would have to provide for leaders subscribing to these values to be represented in governmental organs," he said.

An arrangement which, in effect, guaranteed a multi-party cabinet with white representatives would considerably ease Mr de Klerk's task of selling a new constitution to the white electorate in the referendum he has promised.

A coalition arrangement should also make it unnecessary for the National Party to seek to reserve government places explicitly along racial lines, which the ANC opposes.

The government and the ANC are due today to continue their talks, against the background of the involvement of the army in a Rand township shooting on Tuesday which left 11 blacks dead. Townships around Johannesburg were quieter yesterday after the latest flare-up in a feud between supporters of the ANC and Zulu members of the Inkatha Freedom Party, a conservative rival movement. Clashes have killed 500 since last month.

Mr de Klerk said yesterday the National Party would not agree to any system in which basic rights of any minority, such as whites, were negated. On Tuesday Mr Barend du Plessis, Finance Minister and Transvaal leader of the National Party, told the congress an executive authority could be a "fraternal" cabinet representative of all groups represented in a new legislature.

Dr Zach de Beer, co-leader of the liberal Democratic Party, has accused the government and the ANC of conducting secret talks to form a multi-party "fraternal" government. "It looks as though Mr de Klerk and Mr Mandela want to cosily stitch the whole thing together before telling anyone else in the room," Dr de Beer said.

US proposes job scheme at talks

By William Dullforce in Geneva

THE US has proposed that companies exporting services should be guaranteed the right to post managers, executives and specialists to recipient countries on a temporary basis.

This right would be included in the new General Agreement on Trade in Services (Gats) currently under negotiation in the Uruguay Round trade talks.

The idea was outlined this week to a working group examining what concessions on the movement of labour need to be taken into account in liberalising worldwide trade in services. The US initiative is directed as much to the European Community, Japan and other developed countries as to Third World nations.

Employees essential to the efficient conduct of a service company's operations in an importing country, together with their dependents, should be ensured entry for a limited period of three to five years, the US suggested.

It gave as an example a computer specialist qualified to operate as the company's principal software manager - as distinct from a computer operator who might be recruited from the local labour market.

A manager concerned with the proprietary aspects of a service company's operations could also be granted temporary residence and the right to work in an importing country.

Ensuring entry of personnel would help lower current obstacles to trade in services, the US argued.

IMF calls for continued fight on inflation

By Peter Norman, Economics Correspondent, in London

THE International Monetary Fund has advised industrial countries against easing monetary policy in response to the higher oil prices that have followed Iraq's invasion of Kuwait.

In a confidential analysis circulated to member countries, the IMF says all industrial nations should give a clear signal that they intend to continue fighting inflation.

It also warns developing nations against introducing subsidies or relaxing economic policies in other ways to cope with the problems created by the oil price rise. Such action, it says, would only make their economic difficulties more severe.

The IMF's advice is founded on its belief that higher oil prices will have only a modest negative impact on world growth, but could have a more serious effect on inflation.

The analysis is due to be published as a special supplement to the IMF's next World Economic Outlook in two weeks' time.

It says the adverse effects of the oil price rise will be felt more by oil importing countries such as the US, where growth is already sluggish.

It also warns that the impact of the higher oil prices could be greater than suggested by economic models if the uncertainty that has been apparent in equity and bond markets disturbs business activity.

According to officials familiar with the report, the IMF says that if the oil price stabilises at $25 a barrel, the industrial countries as a group could expect growth to be cut by around ¼ of a percentage point this year and next compared with earlier forecasts.

This would still leave the industrialised world growing at about 2.5 per cent a year and therefore well clear of recession.

However, consumer price inflation could be increased beyond forecast levels by ¼ of a percentage point in 1990 and ¾ of a point in 1991.

The current account balances of the main industrial countries would also suffer, with the already large US deficit growing by an extra 0.2 per cent of gross national product in 1991 and the Japanese and German surpluses falling by around 0.3 per cent of GNP.

One surprising result of the IMF's work is that a sustained oil price of $25 a barrel would add about 0.2 percentage points to growth in the developing countries as a group.

This is because oil producers such as Mexico, Venezuela, Nigeria and Ecuador stand to gain from the oil price rise. Other developing countries and eastern Europe would suffer heavily, however.

The IMF report does not explore in detail what would happen if oil prices settled above $25 a barrel.

But it says that even at $30 a barrel, higher oil prices would have far less adverse effects on the world economy than the price rise of 1979–80.

UK, Soviets study satellite launch plan

Continued from Page 1

studied the original Hotol concept between 1985 and 1987 under a Department of Trade and Industry contract. But they decided not to go ahead with a further stage because of lack of government-funding support.

Detailed study tasks have already been agreed between the UK and the Soviets. BAe said yesterday it remained convinced that such a vehicle was essential to support the long-term manned space station programmes, to reduce the costs of communications via satellites, and to increase the accessibility of space for science and industry.

Rolls-Royce also signed an agreement yesterday with the Soviet Union involving the supply of Rolls-Royce engines to power a new Soviet helicopter. The agreement involves the Soviet helicopter design bureau, Kamov, and the development of the Soviet KA-62R transport helicopter.

● The soaring cost of fuel and currency problems have combined to ground the Soviet AN-225, the transport aircraft involved in the possible Hotol project, at the Farnborough Air Show.

The aircraft had been expected to fly every day during the week-long show. But after appearing in the opening day display on Sunday, Soviet officials decided they could not afford to put the aircraft, which consumes 15 tonnes of fuel an hour, into the air again until Saturday.

Saddam's challenge

Continued from Page 1

Iraqi aggression, but would deal with future crises in the area.

Mr Baker's remarks, to the Senate Foreign Relations committee, appeared aimed at preparing Congress and the American public for a long stay for US troops in Saudi Arabia.

"This is not the last crisis of this nature we are likely to face in this region," he said.

The idea of a new security system to contain Iraq is still embryonic, but it serves to counter arguments inside the Administration and Congress that the US must destroy Iraq's military might if Operation Desert Shield is to be judged a success.

● An Iraqi cargo ship, carrying tea from Sri Lanka, was released by the US Navy in the Gulf of Oman yesterday more than 24 hours after it was boarded and impounded by crewmen from a guided missile frigate, defence officials said, Reuter reports from Washington.

WORLDWIDE WEATHER

		°C	°F
Ajaccio	F	26	79
Algiers	S	32	91
Amsterdam	F	17	63
Athens	S	27	81
Bahrain	F	38	102
Bangkok	F	35	95
Barcelona	F	26	84
Beirut		–	–
Belfast	C	15	59
Belgrade	F	20	68
Berlin	R	12	54
Biarritz	S	22	72
Bombay	Dr	26	79
Bordeaux	S	24	75
Boulogne	F	17	63
Brussels	F	17	63
Budapest	S	20	68
Buenos Aires	C	15	59
Cairo	S	32	90
Cape Town	C	17	63
Caracas	C	26	84
Casablanca	[illegible]	26	79
Chicago	C	22	72
Cologne	F	16	61
Copenhagen	S	17	63
Corfu	F	27	81
Dallas	S	23	73
Delhi	C	17	63
Dublin	C	16	61
Dubrovnik	F	25	77
Edinburgh	C	13	55
Faro	S	27	81
Florence	F	26	79
Frankfurt	F	16	61
Geneva	S	22	72
Gibraltar	S	27	81
Glasgow	Dr	12	54
Helsinki	C	12	54
Hong Kong	S	30	86
Innsbruck	C	16	61
Inverness	R	12	54
Islamabad	F	27	81
Istanbul	S	26	79
Jakarta	F	32	90
Jersey	C	17	63
Johannesburg	S	17	63
Lima	F	18	65
Lisbon	S	26	79
London	F	18	61
Los Angeles	S	18	65
Luxembourg	F	17	63
Madeira	F	25	77
Madrid	S	30	86
Majorca	S	29	84
Malaga	S	28	84
Malta	S	27	82
Manchester	C	16	61
Manila	F	32	90
Melbourne	C	15	59
Mexico City	C	21	70
Miami	S	27	81
Milan	F	25	77
Montreal	R	17	63
Moscow	R	12	54
Munich	F	18	56
Nairobi	F	22	73
Naples	F	26	79
Nassau	F	32	91
New Delhi	F	28	82
New York	F	18	[illegible]
Nice	F	25	77
Nicosia	S	27	82
Oporto	S	17	63
Oslo	C	15	59
Paris	C	16	61
Peking	C	23	73
Prague	F	15	59
Reykjavik	C	16	61
Rhodes	S	27	82
Rio de Janeiro	S	27	[illegible]
Rome	F	27	81
Salzburg	R	12	54
San Francisco	S	13	57
Seoul	F	7	45
Singapore	F	30	86
Stockholm	C	13	57
Strasbourg	S	17	63
Sydney	F	17	63
Taipei	C	32	91
Tangier	S	27	81
Tel Aviv	F	29	84
Tenerife	C	23	73
Tokyo	C	27	81
Toronto	C	20	68
Tunis	S	30	86
Valencia	S	28	84
Venice	F	22	73
Vienna	T	16	61
Warsaw	F	17	63
Washington	S	18	65
Zurich	F	16	61

Temperatures at midday yesterday. C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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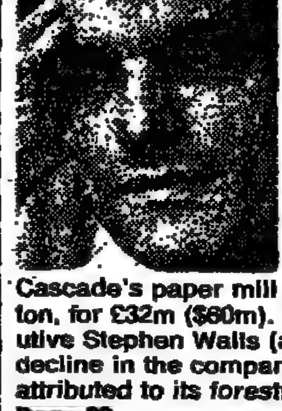
INSIDE

Sun Alliance incurs £119m pre-tax loss

Sun Alliance, the large UK composite insurer, has suffered a pre-tax loss of £119m in the six months ending in June because of winter storms and subsidence caused by two successive dry summers. In the same period of 1989, the group made a pre-tax profit of £191m ($359m). Other large insurance groups have also posted half-year losses recently including a £84m loss at Guardian Royal Exchange and a £65m loss at Royal Insurance. Page 19

Wiggins Teape profits fall by 9%



Unstable pulp prices have hit interim pre-tax profits at Wiggins Teape Appleton, the UK paper company which was demerged from BAT Industries earlier this year. In the six months to June 30, profits fell 9 per cent before tax. The company also announced yesterday the purchase of Boise Cascade's paper mill in Vancouver, Washington, for £32m ($60m). Chairman and chief executive Stephen Walls (above) said almost all the decline in the company's earnings could be attributed to its forestry and pulp operations. Page 23

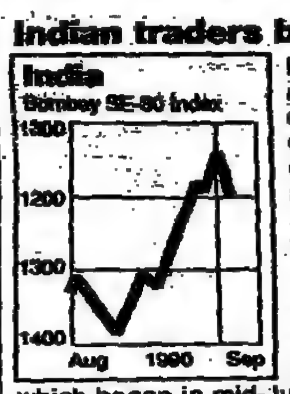
Freeing frozen assets

Deep in the heart of Canada's Northwest Territories lies the Colmac gold mine. The only way to get there is a perilous journey across a 190-mile ice road of frozen lakes. This project has drawn the guarded interest of the rest of the mining industry, anxious to make exploitation of low grade ore mines such as Colmac cost effective. Kenneth Gooding reports. Page 26

Dresdner raises E German stake

Dresdner Bank, West Germany's second largest bank, has raised its stake in the former East German state bank, Deutsche Kreditbank, to 85 per cent from 49 per cent by investing a further DM350m ($222m). It intends to absorb the East German group completely before the end of the year. Both Dresdner and Deutsche Bank, West Germany's biggest bank, set up joint ventures with the East German bank to speed their entry into the new market after the introduction of the D-Mark across the border on July 1. Page 19

Indian traders break from pack



Indian stock markets are racing ahead in stark contrast to those almost everywhere else. As dangers of Gulf war wax and wane, traders in India appear to have seen only roses. Over the past five weeks the Bombay Stock Exchange 30-share index has gained 134 points or 12.6 per cent. The bull phase, which began in mid-June, has gathered such pace that on Monday, the stock exchange authorities were forced to introduce a range of trading curbs. R.C. Murthy reports. Back page

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
[illegible]				Bongrain	523	+	31
Falls				Moët SA	3955	+	20.5
[illegible]	700	−	25	[illegible]	505	+	29
Heidelberger Z.	1150	−	50	Saint Louis	1173	+	63
[illegible]	390	−	10	[illegible]	550	+	22
[illegible]	1100	−	60	Falls			
[illegible]	900	−	15	UFB Locabail	395	−	25.2
Zanders Feln	245	−	10	TOKYO (Yen)			
NEW YORK ($)				Rises			
Rises				Daido Signal	1180	+	80
Boise Cascade	29⅞	+	[illegible]	[illegible]	1070	+	100
[illegible]		+	[illegible]	[illegible]	2700	+	150
[illegible]		+	1½	Falls			
PepsiCo		+	[illegible]	Kawaguchi Met	940	−	122
Texaco	63	+	1	Mitsui High T	3200	−	400
Falls				Toyo Radiator	972	−	148
Campbell Soup	49⅞	−	⅞				

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Reuters	864	+	11
Argyll Grp	229	+	10	Falls			
BAA	423	+	5	Bristol Dev	140	−	10
Cable Grp	223	+	9	Bunzl	125	−	8
[illegible]	158	+	5	Caird Grp	70	−	14
Enterprise Oil	675	+	10	Dickie (J)	42	−	11
GKE	192	+	6	Hughes (HT)	88	−	12
Hardy Oil&Gas	215	+	7	Regal Hotel	80	−	19
[illegible]	232	+	8	Select Appl	13	−	15
Laporte	474	+	11	Sun Alliance	270	−	19
Leading Leis	118	+	5	Williams Hldgs	217	−	13
Lloyds Bank	276	+	8	Wimpey (G)	175	−	27
Polly Peck	304	+	13				

Rome gives way on Enimont sell-off

By John Wyles in Rome

THE ITALIAN Government yesterday publicly abandoned its opposition in principle to the full privatisation of Enimont, the troubled joint chemicals venture between the public and private sectors. It presented a proposal designed to end the damaging battle between the venture's main shareholders.

The plan appears partly designed to force Mr Raul Gardini, whose Montedison owns 40 per cent of Enimont, finally to reveal whether he is serious about wanting to be the leading figure in the Italian chemicals industry.

The proposal rules out a break up of Enimont with Montedison taking one slice and Eni, the state-owned energy company which also owns 40 per cent, taking the other.

Instead, it requires Eni to put a price on its stake and offer it to Montedison, which said in June that it was ready to buy out its partner. If the offer is refused, then Eni would buy out Montedison at the same price.

The Government's first preference is that the two partners should find a *modus vivendi* until the end of 1991, and it asks them to do so. But since the last six months have been lost in this fruitless search – at considerable damage to management morale – neither side will take up the invitation.

The Eni board was meeting last night to discuss its options. While it has the Government's public blessing to sell out, it is not known whether the Eni president, Mr Gabriele Cagliari, has private instructions to fix a price which will invite Mr Gardini's refusal and prompt him to sell the Montedison stake.

The consensus among analysts is that about L2,300bn ($1.9bn) would be a reasonable offer for 40 per cent of Enimont. The market value of the stake is currently about L2,000bn.

Enimont's prospects are grim at the moment. It lacks a president and the managing director resigned last week. The Gulf crisis has added about L700bn to operating costs, its net debt at the end of last year was L7,428bn and it may need to sell assets to make any money this year.

The outcome of yesterday's ministerial meeting on the Government's approach was somewhat surprising. Mr Franco Piga, the new minister for state shareholdings, who is friendly with Mr Gardini, had been expected to support a proposal that Montedison should be allowed management control of Enimont until the end of 1991. This is when alterations in shareholdings, as envisaged by the founding Enimont agreement, would take place.

Mr Gianni De Michelis, the Italian foreign minister, was present reportedly to ensure that the views of his party leader, Mr Bettino Craxi, triumphed over those of Mr Claudio Martelli, the Socialist deputy prime minister. Mr Craxi has little sympathy for Mr Gardini.

Mr Piga will have to defend the government stand before a parliamentary committee today. It appeared last night that an Enimont shareholders' meeting fixed for tomorrow would go ahead.

Piga: will have to defend the Government's approach today

Japanese banks start big borrowing programme

By Tracy Corrigan in London

JAPANESE banks began a huge borrowing programme on the international debt market yesterday to bolster strained balance sheets. Three banks raised $1.8bn of subordinated debt and up to 10 more may follow this month.

The sharp decline in Japanese stock prices following Iraq's invasion of Kuwait has placed heavy pressure on the balance sheets of many Japanese banks by eroding the value of their equity holdings, 45 per cent of which qualify as capital.

The urgent need to shore up their balance sheets has forced the Ministry of Finance to relax its strict stance on subordinated debt issuance. The MoF is also encouraging banks to ease pressure on capital by reining in their lending and so stem the growth of their assets.

Bank of Tokyo and Fuji Bank each brought $700m offerings of subordinated floating-rate notes, while Nippon Credit Bank launched $400m of subordinated debt, all of which matures in 10 years. Tokai Bank, Saitama Bank and Mitsui Taiyo Kobe are among the dozen or so banks said to be planning to tap the market soon.

The banks need to raise extra capital to conform to international capital adequacy requirements. Subordinated debt qualifies as high-ranking capital under the Basle accords.

The banks are keen to tap the market quickly because their half-year reports are due at the end of September. But the MoF is operating a queueing system in an attempt to prevent a flooding of the market.

With up to 10 more issues before the end of this month and more expected in October, the huge volume of paper may deluge investors and so force up the interest costs of the banks. The investor base will be limited to Japanese institutions.

Dai-Ichi Kangyo Bank and Sumitomo Bank have also recently issued subordinated debt in the international market. Sumitomo Bank, a large commercial or "city" bank, broke a convention which limits such issues to the long-term credit banks, and the Ministry of Finance refused to allow further issues. The technique used by the one city bank which borrowed yesterday, Fuji Bank, has been newly permitted by the MoF to circumvent the problem. The Fuji notes fund a loan to the bank's London branch by Merrill Lynch, so that Fuji itself does not tap the subordinated debt market directly.

Post-acquisition costs hit Poulenc at halfway

By William Dawkins in Paris

RHONE-POULENC, France's biggest chemicals group, yesterday reported a 12.9 per cent decline in net income for the first half of the year, hit by the fall in the dollar and a rise in debt costs from an ambitious international acquisition spree.

The rise in oil prices sparked by the Gulf crisis, the dollar's continued weakness and slower economic growth "could have a greater impact on operating income" in the current half, warned the state-owned group, one of several big chemicals groups to report lower profits in recent weeks.

Earnings slipped to FFr34.73 per share in the six months to June, against FFr40.85 in the same period last year.

"We started the year in a vulnerable position because we had built up our debts but not yet drawn the synergies from our acquisitions," said Mr Jean-Pierre Tirouflet, Rhône-Poulenc's finance director.

"Even so, these figures are not so bad in the general context of the world chemicals industry," he explained.

Including the first contributions from acquisitions, sales rose 7.8 per cent to FFr39.9bn ($7.52bn) in the first half, from FFr37.1bn in the same period of last year.

Rhône-Poulenc spent FFr12.4bn on takeovers last year in pursuit of its strategy of increasing its presence in higher value-added products and away from the more cyclical parts of the chemicals industry.

On a comparable basis, turnover fell by 5.6 per cent, of which 4.9 per cent was due to the fall of the dollar and the yen against European currencies.

Operating profits declined by 20 per cent from FFr4.7bn to FFr3.7bn, while the interest bill at halfway increased from FFr1bn to FFr1.7bn.

Debts have risen from 53 per cent to 95 per cent of shareholders' funds over the period.

The first stages of a planned $1.5bn divestment programme, to bring debt back to former levels, brought in a capital gain of FFr804m.

Net profits accordingly fell less steeply than operating earnings, from FFr2.5bn to FFr2.2bn.

The integration of Rhône-Poulenc's new businesses, which include RTZ's chemical division, GAF and Rorer of the US, was proceeding as planned, though Mr Tirouflet did not expect the first real benefits of the takeovers would start to show until next year and 1992.

Sales grew in agrochemicals, fibres and pharmaceuticals, but the chemicals and animal nutrition businesses suffered from cyclical falls in demand and exchange rate changes.

The Brazilian subsidiary, which represents 7 per cent of turnover, lost FFr700m as a result of the Brazil's economic austerity drive.

It is, however, expected to break even again before the end of the year, said Rhône-Poulenc.

Astra lifts interim result by 31% and boosts forecast

By John Burton in Stockholm

ASTRA, the Swedish pharmaceutical company whose fortunes have been transformed by its new Losec anti-ulcer drug, yesterday announced a 31 per cent rise in first-half profits and raised its profit forecast for the year.

Profits before appropriations and taxes increased from SKr916m ($157.2m) in the first half of 1989 to SKr1.2bn, while sales advanced by 24 per cent to SKr4.5bn.

Astra now expects profits to jump by more than 25 per cent to at least SKr2.3bn this year, instead of its earlier prediction of 20 per cent, due to buoyant sales for Losec.

Losec, which was launched in 1988, had sales of SKr611m during the first half of 1990, an increase of almost 400 per cent as it entered new markets.

It was approved in the US for the acute treatment of duodenal ulcers and was allowed entry into Italy, Europe's biggest market for stomach ulcer drugs. It was also approved for the Australian and Greek markets.

Close to 50 countries have approved the drug, which is Astra's second biggest selling product after the cardiovascular agent Seloken.

The potential for Losec is reckoned to be sizable as it challenges Glaxo's Zantac for leadership of the $5bn ulcer drug market worldwide.

Profits for Losec are expected to hit their peak in five years.

Anticipation of Losec's huge earnings has made Astra one of the leading performers on the Stockholm bourse.

The price of its free shares climbed by more than 31 per cent during the first eight months of 1990.

The company's market capitalisation now exceeds that of Volvo, Sweden's biggest company in terms of sales, and Astra was the most profitable Swedish company last year with a net margin of 18 per cent.

Yesterday the company's free B shares, which may be purchased by foreigners, rose by SKr10 to SKr535.

Astra also reported increased sales for Pulmicort, its anti-asthma agent. Pulmicort has helped transform respiratory drugs into the company's biggest product group ahead of cardiovascular drugs, the previous leader.

Sales of Pulmicort increased by 58 per cent to SKr383m and total sales of respiratory drugs rose by 25 per cent to SKr1.1bn.

BAT warns on full year as mid-term profits fall 11%

By Maggie Urry in London

MR PAT SHEEHY, chairman of BAT Industries, warned yesterday that the group's full year results might not reflect the underlying growth in its tobacco and financial services businesses.

"Unless world stock markets recover significantly, our investment returns will be adversely affected, while our reported profits will be reduced on translation if the current strength of sterling continues," he said.

His comments followed publication of first-half results which showed pre-tax profits down 11 per cent to £592m ($1.1bn), while earnings per share fell 20 per cent to 20.46p. Total group turnover, however, was up 13 per cent to £9.4bn.

BAT has changed to translating its overseas profits into sterling at average rather than year-end exchange rates, which will tend to smooth the effect of volatile currency movements. It restated the comparable period's profits for this and to exclude Argos and Wiggins Teape Appleton, the retail and paper businesses which were demerged during the second quarter.

The group, which escaped from a potential £13bn hostile takeover bid from Sir James Goldsmith's Hoylake in April, saw its shares rise 2p to 526p on the day, as analysts said that the results and the dividend were better than expected. The second interim dividend of 10.7p gives 20.7p so far this year, up 20 per cent on a pro-forma basis.

During the first half, the tobacco division increased trading profits 19 per cent to £472m, with sales volumes higher mainly through exports to the Far East, the Middle East, Latin America and to Eastern Europe.

The shortfall in profits was caused by the group's financial services activities where trading profits were down 38 per cent to £256m. There was a better performance in the second quarter with profits 14 per cent lower at £182m compared with a 63 per cent decline in the first three months to £74m.

Farmers, the US insurance business, Allied Dunbar, the UK life assurance and unit trust group, and the life side of Eagle Star, the UK insurer "performed well" according to Mr Sheehy. But Eagle Star's UK composite insurance business was to blame for the downturn, suffering a sharply higher underwriting loss of £189m for the half compared to a loss of £46m in the first half of 1989. Eagle Star has decided to stop writing new property development guarantee business, and has strengthened its reserves against that side by £40m to £165m during the half.

The group's interest charge fell from £157m to £130m, thanks to higher investment income from Brazil, but the tax charge rose from 37.1 per cent to 42.7 per cent. There was an extraordinary gain of £414m (compared with £195m), being profits on disposals of businesses, net of a £26m charge for costs of the Hoylake bid defence and regulatory hearings, bringing the final bill for the bid to £32m.

Lex, Page 16

Dutch insurers in merger talks

By Ronald van de Krol in Amsterdam

TWO leading Dutch mutual insurance companies, Centraal Beheer and Avéro Verzekeringen, yesterday revealed that they had launched merger talks which, if successful, would create the fourth largest insurer in the Netherlands.

The two companies plan to use their strengthened position on the domestic market as a springboard for expansion in Europe, either through acquisition or joint ventures. The mooted link-up is the latest example of concentration in the Dutch insurance industry and co-operation among Europe's mutual insurers.

The merger talks are expected to be completed before the end of this year, with European expansion planned over the next five years, company spokesmen said.

After the merger and creation of a single holding company, the two insurers will continue to operate independently under their separate names. Centraal Beheer, currently ranked fifth in the Netherlands, is primarily a direct insurer providing telephone-based services to consumers. Avéro, the ninth largest Dutch insurer, sells its products both directly and through banks and independent insurance brokers.

Together, they expect to post total income of more than Fl 4bn ($2.3bn) in 1990, putting the merged company in fourth place in the Netherlands after Nationale-Nederlanden, Aegon and Amev. The two companies are active in life and non-life insurance and pension schemes.

Centraal Beheer has already set up an international department to look into opportunities in other parts of Europe. At the moment, Centraal Beheer's foreign activities are limited to a small office in Antwerp, where it sells car insurance to Flemish-speaking customers. Avéro has not yet ventured across the Dutch borders.

INTERNATIONAL COMPANIES AND FINANCE

Pioneer International in the red

By Bruce Jacques in Sydney

PIONEER International, the diversified Australian building products group, has reported the first loss in its 40-year history after allowing for a gross A$234.2m (US$191.1m) in asset write-downs.

These slashed the bottom line from a A$153.6m profit to a A$107.6m loss in the year to June, and Sir Tristan Antico, the group's founder and chairman, summed up the tumble with a single sentence: "We made a mistake with our investment in Giant Resources."

Pioneer bought Giant, then the gold "arm" of the Ariadne group, in 1988 and has now written off more than A$400m on the investment.

"It was our first mistake in 40 years, and it's a pity it had to be so big," Sir Tristan said. "But I'm confident the rest of the assets will stand up well."

Pioneer wrote off A$277.5m of Giant in the latest year and another A$78.6m was written off on the sale of its 30 per cent stake in Pioneer Mineral Exploration. But this was partially offset by a A$181.9m book profit on the A$248.6m sale of mineral sands interests.

Pioneer's core building products business was also down in the year, with net operating earnings falling 44.7 per cent from A$151.1m to A$84.2m. Despite the slump, the company will dip into reserves to maintain annual dividend at 15 cents a share, taking A$103.4m.

That figure included a A$33.3m abnormal loss – there was none previously – and was after a 22.3 per cent rise in tax to A$83.8m from A$68.5m.

Interest expense jumped from A$127.1m to A$201.6m reflecting acquisitions, and depreciation rose from A$100.1m to A$129.8m. Revenue rose by 27.1 per cent from A$3.87bn to A$4.92bn.

Mr Rod Price Pioneer, managing director, said the group would concentrate on its core assets, and the thrust of expansion would be overseas. The company was targeting a 50-50 Australian-overseas asset split within five years. About 65 per cent of assets are currently in Australia.

Mr Price said the write-downs had reduced Pioneer's net asset backing to about A$1.60 a share, but he believed there was at least another A$2 a share in the balance sheet.

Ampol Exploration, Pioneer's 51 per cent-owned subsidiary, yesterday announced a 1,186 per cent net earnings lift from A$1.2m to A$15.3m in the June year, following a big improvement in oil output.

Fall of 21% at TNT due to dispute by pilots

By Bruce Jacques in Sydney

TNT, the Sydney-based multinational transport group, was hit by the protracted Australian pilots' dispute in the year to June, reporting a 21.1 per cent fall in net equity-accounted earnings from A$177.3m to A$139.9m (US$114.1m).

The company, which partners News Corporation in control of Ansett Transport Industries, Australia's only large private airline, has held its annual dividend at 15 cents a share.

Directors said the pilots' dispute caused a reduction of more than A$72m in contribution from associated companies which also include the shipping group, McIlwraith McEacharn, and East-West Airlines.

They said they did not believe the Gulf crisis would have a detrimental effect on the group's long-term profitability or growth, although it was already having an adverse effect on fuel oil prices.

"In any event, the TNT and Ansett groups have taken the precaution, through forward purchases, of securing a proportion of their future requirements at a fixed price," they said.

"In the road freight industry, fuel represents a relatively small proportion of operating costs. Whilst in the aviation industry fuel represents a higher proportion of costs, the group's airline operations utilise modern, fuel efficient fleets."

The result was on a 15 per cent advance in revenue to A$4.48bn from A$3.91bn and was after tax of A$78.5m against A$72.9m and with depreciation of A$134.9m compared with A$114.9m. Net interest expense rose to A$136.1m from A$76.9m.

Seagram raises income by 3%

By Bernard Simon in Toronto

SEAGRAM, the Canadian controlled drinks company, boosted second-quarter income by 3 per cent, with strong contributions coming from its international spirits business and from its interest in Du Pont, the US chemical group.

Net earnings rose to US$205m, or US$2.18 a share, in the three months to July 31, from $199m, or $2.07 a share, a year earlier.

Operating income rose to $152m from $140m, while *dividends from Du Pont, in which* Seagram has a 24 per cent interest, climbed to $65m from $57m.

These advances were partially offset by a $5m rise in interest expenses to $81m. Seagram's equity in unremitted Du Pont earnings slipped to $99m from $105m, and income tax provisions rose slightly.

Revenues expanded by almost 9 per cent to $1.42bn.

Net income for the first six months of the present fiscal year was $392m, which was $3m lower than last year. Per share income rose to $4.15 from $4.07, as a result of a smaller number of outstanding shares.

Mr Edgar Bronfman, president, ascribed the improvement in operating income mainly to the "strong performance" of Seagram International in all regions.

BTR Nylex net earnings rise 15.7%

By Bruce Jacques

BTR Nylex, the Melbourne-based diversified industrial company, has managed a 15.7 per cent net earnings rise in the June half, in spite of what directors described as a difficult economic climate.

The group has raised its interim dividend from 4.8 cents to 5.25 cents a share after boosting profit to A$260.8m (US$213.7m) from A$255.3m.

The result was despite a 4.1 per cent dip in sales to A$2.35bn from A$2.45bn and a 50 per cent increase in finance charges to A$83.9m from A$55.9m.

The company's packaging operations, mainly acquired through the takeover of ACI International, were the strongest performers, with engineering also doing well. But earnings from the polymer and building products divisions were down.

Directors said they were pleased with the result in the circumstances. "Management effort has been directed to further consolidation of the group, with emphasis on cash flow, cost-cutting, product rationalisation and product improvement," they said.

"Current order levels within our building products, automotive and consumer markets are soft. On the other hand, activity of our Asian operations, particularly Malaysia, Thailand and Taiwan, are buoyant."

The result was struck after tax of A$116.4m against A$118.9m previously and depreciation of A$86.9m compared with A$81.3m.

Campbell Soup has $238m loss

By Alan Friedman in New York

SPECIAL charges for divestitures and restructuring caused a fourth-quarter loss of $238.4m, or $1.84 per share at Campbell Soup, the New Jersey based foods group that has been wracked by internal family feuding and management changes over the past year.

The fourth-quarter loss, struck on 11 per cent higher sales of $1.44bn in the three months ended on July 29, came after Campbell took a $301.6m special charge. In the previous fourth quarter Campbell suffered a $194.7m ($1.51 per share) deficit after restructuring charges.

In the 12 months to last July the company recorded a $4.4m net income or 3 cents a share, down from the $13.1m profit struck in the 1988-89 fiscal year. Full-year sales were 9 per cent higher at $6.2bn.

Wall Street reacted to the disappointing results by marking Campbell's share price ⅞ of a point lower yesterday morning, to $46⅞.

Mr David Johnson, the new Australian president and chief executive who was named last January after squabbling within the company's founding Dorrance family, said Campbell's domestic US divisions turned in strong earnings performances, but the international division continued to be disappointing.

HK Gas records 20% advance

By Angus Foster in Hong Kong

HONGKONG & China Gas, the monopoly supplier of piped gas in the colony, yesterday continued an impressive run of results when it revealed interim profits up 20.2 per cent.

The announcement follows last year's 26 per cent increase in full year profits and a 32 per cent gain in 1988.

Towngas, as it is better known, lifted net profits to HK$335.1m (US$42.9m) in the six months to the end of June, compared with HK$278.8m last time. Turnover gained 20.5 per cent to HK$1.11bn.

The main shareholder is Henderson Investment, in turn controlled by the family of Mr Lee Shau-kee. Mr Lee said the increases in sales and customers are set to continue. Towngas has been one of the best performing shares on the local stock market this year.

Mr Lee said the company was continuing to supply new customers at the rate of 70,000 a year. Most of the increase is coming from supplying residential users in high density "new towns" which the Government is encouraging in Hong Kong's New Territories.

Towngas is paying an interim dividend of 10 cents a share compared to an adjusted 7.9 cents a share last year.

Howard Smith set to bid for rival

By Bruce Jacques

HOWARD SMITH, the diversified Australian engineering group, is considering a takeover offer for National Consolidated, its industry rival, which could be worth close to A$500m (US$407m).

Smith directors announced last night that they had retained Macquarie Bank to advise on the bid proposal. They said the announcement was being made because of market speculation, and a final decision was expected next month.

National Consolidated is an integral part of the Adsteam group, run by Mr John Spalvins, one of Australia's few surviving entrepreneurs. The Adsteam group also has a holding of about 30 per cent in Smith, and news of the bid proposal tends to confirm the latter company as part of the Spalvins empire.

Mr Spalvins is believed to have heavily influenced Smith's recent sale of its interest in Coal and Allied Industries from 42.5 per cent to 5 per cent, raising around A$200m.

National Consolidated shares closed at A$2.45 last night, valuing the company at about A$460m. The final dividend was raised from 12 cents to 15 cents a share.

HK companies join forces on venture capital plan

By Angus Foster

TWO of Hong Kong's best known companies are joining forces with some of Asia's most prominent businessmen to launch a new venture capital company to invest in industrial companies in Hong Kong and Macau.

The new company, SHK Hong Kong Industries, aims to raise as much as HK$1.5bn (US$192.3m) within the next 18 months.

Sun Hung Kai & Co, a financial services company with one of the largest stockbrokerages in Hong Kong, and New World Development, a property company controlled by Mr Cheng Yu-tung, have each taken a 22 per cent stake in the company.

Other investors include Mr Lee Shau-kee's Henderson group, Chinese conglomerate Lippo from Indonesia, Shun Tak, a Hong Kong listed company associated with Macau casino tycoon Mr Stanley Ho, First Taiwan Capital group from Taiwan as well as Malaysian and Chinese state-owned interests. American International Assurance and Osterreichische Landerbank are also listed as shareholders.

These investors have already contributed HK$780m. SHK Hong Kong Industries hopes to raise a further HK$250m through private placement and a public offer in the next year, according to Mr Tony Fung, chairman.

The move is the latest example of a growing trend of direct investment into Asia. Investors hope to cash in on the region's economic growth.

INTERNATIONAL COMPANIES AND FINANCE

Weather takes toll of another UK insurer

By David Barchard in London

WINTER STORMS and subsidence caused by two successive dry summers pushed Sun Alliance, the large UK composite insurer, into a pre-tax loss of £119m ($232m) in the six months ending in June.

The loss compared with a pre-tax profit of £191m in the same period of 1989, but was followed by other large UK insurance groups which have also posted losses for the half year in the last few weeks.

Mr Roger Neville, Sun Alliance's group chief executive, said the losses meant that increases in premium rates were inevitable.

"Whilst we can look to a recovery in the second half, 1990 will clearly produce a disappointing result," he said.

The group blamed its losses on storms in the UK in January and February which cost £3bn to the UK insurance industry.

Sun Alliance dealt with about 500,000 claims on its household insurance and paid out £163m net on household claims. Storm losses cost it a total of £320m before reinsurance; net losses were £226m.

Shareholders' funds on June 30 were £2.56bn, down from £2.93bn at the end of December.

The group's solvency margin is now 102 per cent, compared with 119 per cent at the end of last year.

Premium income in the UK during the first six months of the year was £472m, 9 per cent up on £432m a year ago.

Premium income at Sun Alliance International rose from £376m in June 1989 to £388m. The underwriting deficit grew to £87m from £6m a year ago after net losses of £49m on the storms in the first two months of the year.

At Sun Alliance Overseas, premium income on general insurance grew to £478m from £447m, but the underwriting deficit went up to £52m from £18m.

There was a loss per share of 14.3p (June 1989: earning of 16.2p), but an interim dividend of 5.0p per share was declared, up by 11 per on the group's 1989 interim dividend of 4.5p.

Dresdner Bank raises stake in E German venture to 85%

By Katharine Campbell in Frankfurt

DRESDNER BANK, West Germany's second largest bank, has invested a further DM350m ($222m) in its East German joint banking venture, taking its stake from 49 per cent to 85 per cent. The bank intends to integrate the operation into the Dresdner group before the end of the year.

Both Deutsche Bank and Dresdner set up joint ventures with the former East German state bank, Deutsche Kreditbank, to speed their entry into the new market after the introduction of the D-Mark across the border on July 1.

Deutsche, which picked up the lion's share of the branch network, raised its stake in Deutsche Bank-Kreditbank to 85 per cent at the end of July.

The moves come amid anti-trust regulators' concern at the speed of takeovers of East German businesses by their counterparts in West Germany. The banks need fresh capital as their regulators have capped lending activities in the East at 10 times capital and reserves, rather than at the factor of 18 permitted at home.

Wolfgang Röller: expects 25 per cent growth in two years

The credit risks of financing the East German market's revival are considerable, and the process is hampered by a dearth of reliable figures about companies' profitability.

The extra DM350m from Dresdner brings capital and reserves at the joint venture to DM500m. The remaining 15 per cent share is held by the Kreditbank and three other East German companies including Carl Zeiss Jena, the optical manufacturers.

At the end of July, Dresdner reported a brisk start to its East Germany activities, with new customer deposits amounting to DM1bn, and healthy sales levels of fixed income securities. The bank had also extended loans of DM750m, in addition to funds under the government-guaranteed liquidity programme for East German industry.

Mr Wolfgang Röller, chief executive, has said he expects about 25 per cent growth in the bank's business volume in the next two years, a large proportion from the expanding East German operation.

Pirelli Tyre net profits plunge 61% in first half

By Haig Simonian in Milan

THE sorry state of the world tyre industry received further confirmation yesterday with news of a 61 per cent fall in first-half net profits at Pirelli Tyre Holding (PTH), the tyre operation spun off by Italy's Pirelli group last year.

Sales in the first six months of 1990 dropped by 5.8 per cent to Fl 3.16bn (US$1,785m) from Fl 3.36bn in the same period last year. Net earnings plummeted to Fl 40m from Fl 103m.

PTH declined to make a profits forecast for the year, in view of higher raw material costs and potentially lower demand for new tyres. However, it said there were some signs of an improving trend in tyre prices.

The group plans to improve its competitive position through a mixture of accelerated job losses, lower capital spending and faster introduction of new products. Direct retail operations will also be improved via selected acquisitions and disposals, while spending on sports activities will be contained.

The severity of the fall in net profits masked a slightly better trend at the operating level, where earnings fell by 29 per cent to Fl 151m from Fl 212m last year.

The particularly sharp drop in net compared with operating earnings stemmed from interest income at PTH's south American operations, which, exceptionally, was negative after accounting for inflation, it said. The factor was not expected to recur in the second half.

Meanwhile, turnover figures had been depressed by currency factors, with the 10 per cent fall in the US dollar against the Dutch guilder reducing the value of sales by PTH's north and south American operations.

Sales in volume terms fell slightly overall. Although turnover in car tyres in Europe rose by 2 per cent, the downturn in the truck business meant unit sales of truck tyres dropped slightly.

Production was also hit by strikes in Greece and Turkey.

Malaysian insurance group buys bank stake

GENERAL Corporation, a Malaysian construction and property group, has agreed to sell a 20 per cent stake in Hock Hua Bank to Malaysia British Assurance (MBA), writes Lim Siong Hoon in Kuala Lumpur.

The M$15.8m (US$5.9m) cash deal at M$5.25 a share in Hock Hua could strengthen MBA, a publicly-quoted life and general insurance group which has formed ties with AGF International of France.

Earlier this year, MBA agreed to sell a 30 per cent stake in its unit, MBA Life Assurance, to AGF for M$8.4m cash. The sale of Hock Hua, one of Malaysia's smallest banks with shareholders' funds of M$38.9m and assets of M$330m, represents a move towards expansion and diversification in the financial sector.

The changes are driven partly by a strong economy and large investment inflows, and partly by official direction. With the combination of insurance and banking, MBA said the deal would fulfil its objectives of expanding the range of its financial services.

NEWS IN BRIEF

Kaufhof ahead at midterm

KAUFHOF Holding, the West German retailer, said its earnings in the first half of 1990 were significantly above those achieved in the same 1989 period, and net profit in the full year would be substantially above 1989's DM107.6m (US$68.1m), Reuter reports.

Kaufhof gave no details on first-half results in its interim statement, but said it was satisfied with earnings and business developments in the six months. Turnover rose 9 per cent to DM6.15bn in the period.

■ Canadian Marconi, 51 per cent controlled by General Electric of the UK and IMP Group of Halifax, is taking over Micronav, a builder of microwave aircraft landing systems, from the bankrupt Leigh Instruments, writes Robert Gibbens.

Canadian Marconi and IMP will each own 50 per cent of Micronav, which is negotiating a C$50m (US$43m) federal contract to re-equip 40 airports with microwave ground stations will replace older instrument landing systems.

■ Volkswagen, the West German car maker, said its group deliveries rose to a record of more than 1.8m units during the first seven months of this year, up 1.9 per cent from the same period in 1989, Reuter reports.

VW quoted supervisory board member Martin Posth saying domestic incoming orders for all VW models had exceeded all VW's expectations. "Volkswagen could sell significantly more cars now than production possibilities will allow," he said.

Correction
Oerlikon-Bührle

Owing to an editing error, yesterday's story on Oerlikon-Bührle wrongly stated that the Bührle family, which controls 42 per cent of the Swiss industrial and armaments group's share capital and 44 per cent of voting rights, had shown a desire to sell its holding. The sentence should have read: "The family has shown no desire to sell its holding."

Big Blue turns its wizardry to solving users' problems

INTERNATIONAL Business Machines' new mainframe computer family, announced yesterday, has some significant technical developments under the familar blue covers, but they are evolutionary rather than revolutionary.

The machines offer greatly improved performance for less money than existing systems – but the principal importance of the new models lies in the way they have been tuned to solve their users' business problems rather than in their technological superiority to competitive systems.

Alan Cane and Louise Kehoe look at a fresh approach from the world leader in computers

It is a new approach for IBM, which has hitherto emphasised the engineering wizardry in its products, but it has two plus points for the world's largest computer company.

First, it is a counter for the current sluggishness in the worldwide computer market, which has been attributed to computer users' dissatisfaction with their existing systems. Today's computers are too difficult to connect together, they complain, too insecure and too awkward to manage.

The new IBM range – called the Enterprise System 9000 family and based on a new design called System/390 – addresses these problems.

● The design allows individual computers and peripherals such as disk drives and printers to be connected together through high-speed optical fibres rather than conventional clumsy ribbon cables.

The devices can be up to 9km apart, compared with a few metres for ribbon cables, and information travels down these data pipelines at 10 megabits a second (a rate equivalent, say, to a dozen books every second).

It overcomes the problem of small or overcrowded computer rooms and opens the possibility of having remote, sealed data centres secure from intrusion or attack.

Another new development, whose importance will be more apparent to data processing experts than lay people, is that peripherals can be added or subtracted from a network of the new machines without the need to stop the system and bring it back into action again from scratch.

● There are security measures in the form of coding and decoding mechanisms built into the new computers. Security is of increasing importance to computer users, especially where information about large sums of money or confidential data is transmitted over telecommunications lines.

● The machines can be equipped with a "vector facility," a piece of additional hardware which gives a conventional mainframe the attributes of a supercomputer.

Many customers have applications – in component designs, for example – which could make use of the power of a supercomputer, but too infrequently to justify the cost.

The new IBM machines will both fulfil their requirements and threaten the marketability of existing mini-supercomputers.

Second, the emphasis on business applications attacks IBM's chief challengers – the Japanese makers of computers which are plug-compatible with IBM's – where they are weakest.

With this announcement, IBM is saying that computing power has become a commodity, not only at the level of the personal computer but all the way to the mainframe

With this announcement, IBM is saying that computing power has become a commodity, not only at the level of the personal computer but all the way up to the mainframe.

Japanese manufacturers can make computers that are as powerful as IBM's, but they have little experience of western business applications and are dependent on western software houses and value-added resellers. IBM has been building relationships with a myriad of US and European software houses and computing services companies to patch up its weaknesses in applications software.

The new IBM machines are powerful. The System/390 family covers 18 models, with the top of the range measured at about 100 times the performance of the smallest member. At the least powerful end of the scale, they include air-cooled systems that replace the existing 9370 small or departmental mainframes, but offer about five times the power.

At the top end, the largest System/390 is about twice as powerful as IBM's existing top-of-the-range System/3090 600J. According to measurements made at the University of Argonne in the US, it is the most powerful processor of its kind available.

Mr George Conrades, a senior IBM vice president and manager for US marketing and services, said: "We listened to our customers in developing this system.

"They wanted an integrated, enterprise-wide system, not piece parts. The issue is processor performance and memory, but very much more."

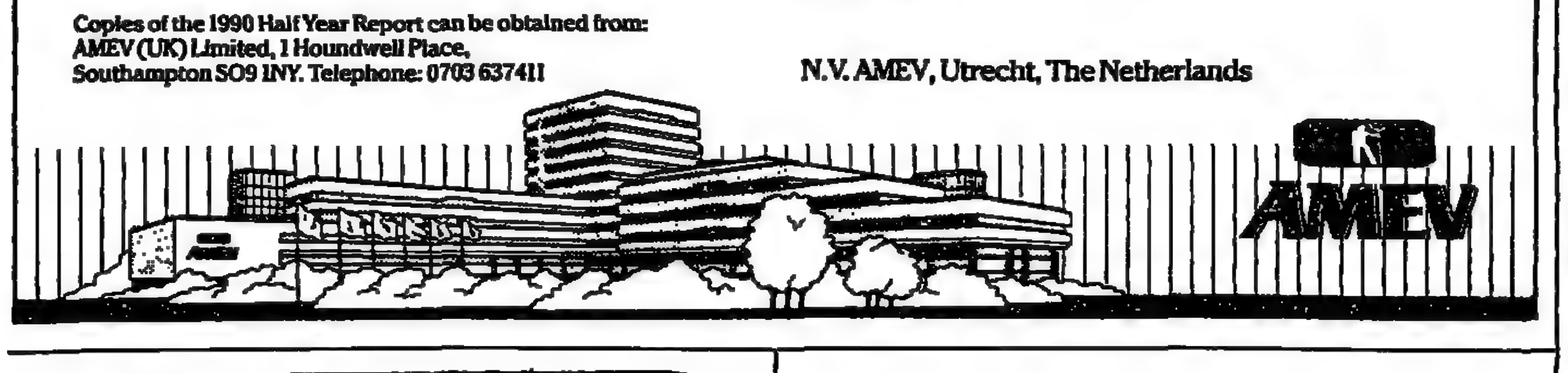
Mr Tony Cleaver, chairman and chief executive of IBM's UK subsidiary, said the new range represented a marriage between IBM's technological skills and the business needs of its customers.

Mr Terry Lautenbach, head of IBM US, said that with the new machines IBM was "breaking down the glass walls of the data centre and redefining the role of the mainframe."

A number of machines are installed with customers in the US and Europe; IBM expects to have installed 100 by the end of the month.

Both the smaller, air-cooled machines and the larger water-cooled machines will be available this month.

The main manufacturing sites to supply Europe are at Montpellier in France and Valencia in Spain. IBM is not quoting prices for the new series, arguing that the different possible configurations of machine make it difficult to set representative prices.



INTERNATIONAL CAPITAL MARKETS

Treasuries score small gains in quiet trading

By Simon London in London and Janet Bush in New York

US Treasury bonds scored small gains yesterday morning in quiet trading, holding steady despite a rise in oil prices and a sharply weaker dollar overnight.

At midsession, short-dated maturities were quoted around ⅛ point higher and the Treasury's benchmark long bond stood ⅜ point higher for a yield of 8.997 per cent.

The rise in crude oil prices was modest which mitigated the negative effect on bonds. On the New York Mercantile Exchange, October crude oil contracts were quoted 35 cents a barrel higher at $29.47.

The market expects the US Federal Reserve to ease monetary policy shortly although the timing remains uncertain and an easing is already built into Treasury yields.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	101-27	-02/32	12.46	12.38	12.51
		9.000	03/00	84-12	-10/32	11.77	11.83	11.94
		9.000	10/08	83-11	-13/32	11.16	11.29	11.36
US TREASURY *		8.750	08/00	99-06	+06/32	8.86	8.90	8.76
		8.750	08/20	97-17	+13/32	8.99	9.03	8.86
JAPAN	No 119	4.800	6/99	82.7328	-0.167	8.16	8.27	8.09
	No 130	6.700	06/00	93.7881	-0.349	7.82	7.95	7.66
GERMANY		8.500	08/00	96.8750	+0.175	8.97	8.93	8.99
FRANCE	BTAN	9.000	11/95	94.4697	+0.077	10.41	10.32	10.08
	OAT	8.500	03/00	88.8900	+0.310	10.37	10.26	10.15
CANADA *		10.500	07/00	98.3000	-0.050	10.76	10.60	10.46
NETHERLANDS		9.000	07/00	99.4300	+0.130	9.09	9.06	9.06
AUSTRALIA		13.000	07/00	98.9576	+0.052	13.56	13.59	13.45

London closing. *denotes New York morning session

Yields: Local market standard — Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

■GILT-EDGED securities closed slightly lower in London trading, with prices moving ahead early in the day on the back of yesterday's rise but fading throughout the afternoon session.

GOVERNMENT BONDS

Volume in both cash and futures markets was higher than in recent days but still at historically low levels.

The December gilt futures contract ended the day at 82⅞ against yesterday's close of 83⅛, on a volume of 24,000 lots.

The benchmark 11¾ per cent 2003/2007 gilt closed the day at 100⅛, down ⅜ on the day for a yield of 11.72 per cent.

■JAPANESE government bonds moved slightly below Tuesday's closing levels in Tokyo trading but volume remained light. The benchmark No 119 issue closed to yield 8.16 per cent, against 8.13 per cent on Tuesday. The December futures contract closed at 89.17 against 89.35 on Tuesday.

To some degree the cash market remains without a "rudder" as the benchmark status of the No 119 issue is called into doubt. The No 119 had an original issues size of Y1,850bn, but liquidity has been squeezed by Bank of Japan and Ministry of Finance buy-in programmes. Dealers estimate that about 20 per cent of the issue has been taken out of the market.

An obvious successor is the Y2,300bn 6.4 per cent No 129 issue, but dealers noted that volume here remains low. Issued close to par, the No 129 is trading at around 92. Some investors are therefore declining to trade the issue because it would force them to crystallise a paper loss. The market may thus remain without a benchmark until sentiment swings and yields fall back.

■TRADING of German government bonds was subdued with few investors active in the market and price movements driven by technical trading.

The benchmark 10-year 8¼ per cent bund closed the day at 96.85, up 10 pfennigs on the day to yield 8.99 per cent. The December bund futures contract closed at 81.37, up from 81.25 yesterday.

August trading figures from the London International Financial Futures Exchange (Liffe) confirm the strong growth shown by the German government bond futures and options products.

The bund option registered 245,627 contracts during the month, a rise of 58 per cent over July volume.

Compagnie Bancaire profits rise 15%

By William Dawkins in Paris

COMPAGNIE BANCAIRE, the French financial services group, has increased its group consolidated operating profits by 15 per cent to FFr955m in the six months to June.

The bank, active in leasing, consumer credit, mortgages and direct mail insurance, reported net consolidated profits, after minorities, of FFr607m for the period, 12 per cent up on the first six months of 1989.

Compagnie Bancaire is the largest and most successful subsidiary of Paribas, the leading French investment bank. Early this year, Mr André Lévy-Lang, Compagnie Bancaire's former chief executive, became Paribas' chief operating officer in a move designed to strengthen Paribas' management in the wake of an abortive Paribas bid for Navigation Mixte, the food to financial services conglomerate.

Mr Lévy-Lang, who still heads Compagnie Bancaire's supervisory board, has been replaced as chief executive by his former deputy, Mr Francois Henrot.

The group's credit subsidiaries increased their lending volume by FFr43.4bn, or 8 per cent during the first half. This left total loans outstanding at FFr202bn, 20 per cent above the level at the end of June 1989.

Over the year to the end of June, group operating profits rose by 21 per cent to FFr1.8bn net, while net profits excluding minorities rose by 15 per cent to FFr1.2bn.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. — Latest prices at 6:10 pm on September 5

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	99⅛	99⅝	-⅛	9.24
ALBERTA PROVINCE 9 3/8 95	600	100⅝	101⅛	+⅛	9.14
AMERICAN GENERAL 9 3/4 95	100	97⅛	97⅝		10.52
AUSTRIA 8 1/2 00	400	93⅛	93⅝		9.63
BANK OF TOKYO 8 3/8 96	100	94⅞	95⅛		9.61
BELGIUM 9 1/8 92	400	100⅝	101⅛		8.77
BFCE 7 3/4 97	150	92	92½		9.43
BNP 8 5/8 94	300	98⅛	98⅝	+⅛	9.09
BP CAPITAL 9 5/8 93	150	101	102	+⅛	9.09
CANADA 9 96	1000	99⅝	100⅛		9.04
CCCE 9 1/4 95	300	100⅛	100⅝	+⅛	9.12
COUNCIL EUROPE 8 96	100	93⅞	94⅜	-⅛	9.39
CREDIT FONCIER 9 1/2 99	300	99⅛	99½		9.61
DENMARK 0 98	250	48⅛	48⅝	-⅛	9.67
DENMARK 8 1/4 94	150	97⅛	97½		9.14
ECSC 8 1/4 96	193	94⅞	95⅛		9.38
EEC 7 1/4 93	250	96½	96⅞	-⅛	8.84
EIB 7 3/4 96	250	93⅛	93½		9.32
EIB 10 97	250	102⅝	103⅛		9.43
ELEC DE FRANCE 9 98	200	97⅞	98⅞		9.41
EUROFIMA 9 1/4 96	100	99⅞	100⅜	+⅛	9.29
EXPORT DEV CORP 9 1/2 98	150	99⅞	100⅜		9.51
FINLAND 7 7/8 97	200	92	92½	+⅛	9.39
FINNISH EXPORT 9 3/8 95	200	100⅛	100⅝	+⅛	9.27
FORD MOTOR CREDIT 9 1/2 93	300	100½	100⅞		9.29
GEN ELEC CAPITAL 9 3/8 96	300	99½	99⅞	-⅛	9.47
GMAC 9 1/8 96	200	98⅞	99⅜	+⅛	9.37
HALIFAX 9 1/2 93	200	101	101½	+⅛	9.05
IBM WORLD TRADE 7 5/8 93	150	95⅛	96⅛		9.24
IND BK JAPAN FIN 7 7/8 97	200	91½	92		9.66
INTER AMER DEV 7 5/8 96	200	92	92½		9.43
ITALY 8 1/2 94	1500	98⅛	98⅝		9.05
JAPAN DEV BK 8 94	150	96⅞	97⅛		9.09
KANSAI ELEC PWR 10 96	350	101⅞	102⅛	+⅛	9.58
LTCB 8 5/8 93	150	99	99½		9.04
NEW ZEALAND 8 93	100	97⅞	98⅛	+⅛	8.92
NIPPON CRED BK 9 3/4 93	150	101⅛	101⅝	+⅛	9.25
NIPPON TEL & TEL 9 3/8 95	200	100⅝	101⅛	+⅛	9.17
NISSAN ACCEPT CORP 9 1/4 91	150	100	100⅛	-⅛	9.23
OLYMPIA & YORK 8 1/4 96	435	87⅛	89⅝	-⅛	11.21
ONTARIO HYDRO 11 5/8 96	200	105	106⅛	-1½	9.79
OSTER KONTROLLBANK 8 1/8 93	200	98⅛	98⅝		8.83
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OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COUNCIL EUROPE 7 94 LFr	600	92½	93½	+½	9.62
KREDIETCORP 7 93 LFr	1000	93½	94½	+⅛	9.65
WORLD BANK 8 96 LFr	1000	93⅞	94⅞	-⅛	9.43
AMRO BANK 6 1/4 92 Fl	150	94⅞	95⅜	+⅛	9.39
DENMARK 8 1/2 91 Fl	100	99½	100⅛	+⅛	9.15
HEINEKEN 7 5/8 94 Fl	150	96	96⅜		8.89
PHILIPS GLOEILAMPEN 5 3/4 92 Fl	150	94⅞	95⅛		9.46
RABOBANK 5 3/4 93 Fl	150	92	92⅜	-⅛	9.48
WORLD BANK 6 1/4 91 Fl	100	98⅞	99⅜	+⅛	9.41
ALBERTA PROVINCE 10 92 C$	500	97⅛	97⅝		11.53
BCE INC 9 5/8 93 C$	300	95	95½		11.88
BELL CANADA 10 5/8 99 C$	150	93½	94⅛		11.81
BRITISH COLUMBIA 9 1/4 93 C$	150	94⅞	95⅜		11.67
EIB 10 1/8 98 C$	130	91⅞	92⅜	+⅛	11.78
FORD CREDIT CANADA 10 94 C$	100	94⅜	94⅞		11.65
GENERAL ELECT CAP 10 1/4 93 C$	175	96⅞	97⅜	+⅛	11.50
MONTREAL TRUSTCO 8 1/2 92 C$	100	94⅛	94⅝	+½	12.54
ONTARIO HYDRO 10 7/8 99 C$	500	95⅛	95⅝		11.71
QUEBEC PROV 10 1/2 98 C$	200	92⅜	93	+⅛	11.96
ROYAL TRUSTCO 10 1/4 93 C$	100	95⅜	96⅛	+⅛	12.18
SWEDEN 9 3/4 93 C$	250	96⅛	96⅝		11.47
AUSTRIA 7 3/8 93 Ecu	125	92⅞	93⅜	+⅛	10.65
CNT 7 3/8 93 Ecu	250	91⅞	92⅜	-⅛	11.08
CREDIT LYONNAIS 9 96 Ecu	125	94⅞	95⅜	+1	10.34
DENMARK 7 5/8 96 Ecu	250	87⅞	88⅜		10.63
EEC 7 5/8 94 Ecu	200	91⅞	92⅜		10.50
EIB 10 97 Ecu	1125	98	98⅛	+⅛	10.41
ITALY 10 3/4 00 Ecu	1000	101	101⅛	-⅛	10.56
SWEDEN 7 1/2 93 Ecu	250	91	92⅛	-⅛	10.97
BMW FINANCE 14 1/2 92 A$	100	100⅞	101⅜	+⅛	13.80
COUNCIL EUROPE 13 93 A$	50	99⅛	99⅝	-⅛	13.34
EKSPORTFINANS 12 3/8 95 A$	75	96⅛	97		13.38
FORD CRED AUST 13 93 A$	50	97⅛	97⅝		14.27
HEINZ 12 3/4 91 A$	100	98	99		15.36
ICI 15 1/2 92 A$	100	101⅛	102	+⅛	14.33
NAT AUSTRALIA BANK 14 3/4 94 A$	150	101⅛	101⅞	+⅛	14.17
STATE BK NSW 14 1/4 99 A$	100	99	99½	-⅛	14.44
VOLKSWAGEN INTL 15 94 A$	100	102½	103		13.99
BARCLAYS JERSEY 9 1/2 93 £	250	92⅛	92½		13.22
EIB 10 97 £	300	88⅛	88⅝	+⅛	12.79
FORD CREDIT FUNDING 9 5/8 93 £	50	91½	92	-⅛	13.64
INTER AMER DEV 11 3/8 95 £	75	95⅛	95⅝	-⅛	12.66
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available - previous day's price

† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Debt-equity auction by Mexico expected

By Richard Johns in Mexico City

THE MEXICAN Government is considering another debt-equity swap auction this year, Mr Angel Gurria, Under-secretary for International Finance at the Ministry of Finance, said yesterday.

But a meeting of a committee of ministry officials would have to convene before the auction could go ahead. He said a great deal of pent up demand for such conversions had been identified as a result of July's successful auction.

The Government has identified 151 eligible infrastructure projects for debt-equity conversions.

According to a report in the usually well-informed financial daily, El Economista, the auction would be aimed primarily at reducing the now-residual private sector liabilities – still being serviced with the help of the state – and also outstanding external borrowings of the six largest commercial banks.

Redemption of at least $1.5bn of debt is planned in return for pesos, at a discount of between 51 and 52 per cent, according to the usually well-informed financial daily, El Economista.

The successful auction in July accounted for $1bn of public sector debt. Then, 27 bids out of 359 were accepted at a discount of 50.2 per cent.

Senior Mexican finance officials expressed themselves delighted with the result of the last auction in July. They said bids covered $18bn of the country's outstanding medium- and long-term public sector debt. All the pesos exchanged were committed to infrastructure rather than privatisations.

But bankers commented that the $18bn figure was vastly inflated by overlapping bids made by the same creditors.

The ceiling of debt equity swaps agreed by the Mexican Government under the three-and-a-half year debt accord with its commercial bank creditors is $3.5bn.

With a big privatisation programme involving the state's share in the commercial banks and the steel industry in prospect, the Government may be regretting that it agreed such a low ceiling.

No debt conversions were involved in last month's award to the successful $475m offer for Compania Minera de Cananea by Grupo Industrial Minera Mexico and Asec-Union Miniere (with a 21 per cent stake in the venture), according to the Ministry of Finance.

That was one factor which made the Government favour the bid in preference to one of $468m from Empresa Cuprifera de Cananea, essentially composed of Ingenieros Civiles Asociados, Mexico's largest construction company, in association with Metallgesellschaft of West Germany and the Teck Corporation of Canada.

The state development bank Nacional Financiera is understood to have taken on full responsibility for the liabilities of the Cananea copper mine amounting to $700m, meaning that the Government is making a substantial loss on the sale. Proceeds from it are to be placed into a trust fund managed by Banca Serfin to pay off creditors.

The El Economista report said the liabilities covered by the forthcoming auction would include those of the Trust Fund for Exchange Risk Coverage (Ficorca) and Banamex, Bancomer, Banca Serfin, Banco Internacional, Comermex, and Banco Mexicano Somex. It said an announcement on the auction would be made this week.

Ficorca was established in 1983 to save private Mexican companies from bankruptcy following the 1982 debt and financial crisis through a mechanism whereby at a time of high inflation the institution undertook dollar repayments in exchange for pesos.

Initially, Ficorca covered $12bn of debt. By end-1989 this had been cut to $850m, a 60.9 per cent fall in outstanding liabilities from a year earlier, the Bank of Mexico said in its last annual report.

Morgan Grenfell forms Irish subsidiary

By David Lascelles, Banking Editor

MORGAN Grenfell, the merchant bank owned by Deutsche Bank, has formed an Irish subsidiary Morgan Grenfell (Ireland) to engage in asset financing and asset management.

The new company will operate out of the new International Financial Services Centre which is being established by the Irish Government with fiscal incentives to attract finance business to Dublin.

INTERNATIONAL CAPITAL MARKETS

Issuers take advantage of relatively stable conditions

By Tracy Corrigan

ACTIVITY in the Eurobond market was livelier than for some weeks, as borrowers took advantage of the relative stability of bond markets. Most deals appeared to meet some pent-up demand for paper.

British Gas brought a £175m three-year deal priced to yield 45 basis points above the comparable gilt issue, which offered investors virtually no yield pick-up on the secondary market. Nevertheless, the deal met steady demand, with greater European participation than for Tuesday's Nationwide Anglia offering.

Some accounts were said to be taking long positions in sterling bonds, in anticipation of possible UK entry into the European exchange rate mechanism. But in the main, demand reflected fund managers' continued preference for top quality short-dated paper.

In the fixed-rate dollar market, Kansai International Airport brought its $170m offering, which the market has been expecting for several weeks. Having originally considered launching 10-year bonds, the borrower eventually plumped for a seven-year maturity, where there is broader demand.

The deal was placed quickly, largely as a result of extensive pre-marketing, and performed strongly, trading at around less 1¼ bid, well within 1⅝ point fees.

In the Swiss market, Electricité de France brought a SFr150m offering of 10-year bonds which traded strongly. It was quoted at less 1¾ bid, well within 2½ point fees.

Three Japanese banks, Fuji, Nippon Credit and Bank of Tokyo launched $1.8bn of subordinated debt. The deals, all maturing in 10 years, are being placed mainly with Japanese institutions.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Bank of Tokyo (Curacao)‡◆	700	(a)	100	2000	25bp	Bk of Tokyo Cap.Mkts.
Nippon Credit Bk.(Curacao)‡◆	400	(b)	100.25	2000	30bp	Nippon Credit Int.
Fuji Bk.(London)‡◆(c)	700	(d)	100	2000	30bp	Fuji Int.Fin.
Kansai Int.Airport◆(e)	170	8½	101.65	1997	1⅝/1¼	Bk of Tokyo.Cap.Mkts.
AUSTRALIAN DOLLARS						
Deutsche Bk Finance NV◆(f)	50	14	101.65	1993	1¼/1	Deutsche Bk.Cap.Mkts.
State Bk of NSW★★◆	100	(g)	62.1	2000	2	Nomura Int.
SWISS FRANCS						
Electricite de France◆(h)	150	7⅛	102	2000	2⅛/1¼	SBC
IBM Int.Fin★★◆(i)	100	8	101	1992	-	Credit Suisse
Sankyo Kasei Corporation◆	10	7½	100	1997	-	Dai-Ichi-Kan.Bk(Switz)
ECUs						
Unibank★★(j)	30	(k)	100	1993	-	Daiwa Securities
YEN						
Toronto Dominion Bk◆(p)	4bn	10	101.125	1991	1⅛/⅝	New Japan Securities
STERLING						
Mortgage Secs.(No2)‡◆	(l)	(m)	100	2028	80bp	J.P Morgan Securities
British Gas Plc◆(o)	175	13	101.525	1993	1⅝/⅞	CSFB

◆Final terms. ‡Floating rate note. ★★Private placement. a)3-month Libor plus 25bp in yrs 1-5, yrs 5-10 Libor plus 35bp. b)3-month Libor plus 30bp in yrs 1-5, thereafter, spread is Libor plus 80. Issue callable at par after yr 5 and on each coupon date thereafter. c)Subordinated loan participation certificates issued through Merrill Lynch Bk to fund a 10yr loan from Fuji Bk (London). d)3-month Libor + 0.25 yrs 1-5, yrs 5-10 3-month Libor + 0.35. e)Non-callable. f)Fungible from payment date, non-callable. g)0% semi-annual. h)Callable after 1995 at 101½. i)2 yrs non-callable. j)Put option every 3-months on interest date at par. k)3-month Ecu Libor minus 30bp. l)£50m tranche of its £150m FRN due 2028. m)After 1995 Libor + 50. n)Callable at par from Sep,1994. o)Issue is reoffered at 100.276 at a spread of 45 bp over the gilt (10% due 1993). p)Nikkei-linked.

Power Corp in £100m facility

By Simon London

POWER Corporation, the Dublin-based property group which has a portfolio including a 50 per cent interest in London's Trocadero Centre, has agreed a £100m credit facility with a group of banks led by Irish Intercontinental.

The unsecured facility carries a margin of 1 per cent over London interbank offered rate with a commitment fee of ¼ per cent. The manager's fees are ⅛ per cent and participant's fees ⅛ per cent.

The last significant syndicated lending facility in the troubled property sector was a £280m facility raised in mid-August by Rosehaugh and Stanhope, for the completion of the Ludgate development near St Paul's Cathedral.

Mr Tony Leonard, Power Corporation finance director, said that the cash was not yet earmarked for a specific project. "This is a buyer's market and we are looking to diversify the portfolio in the UK, US and Europe. We are currently looking at possible acquisitions in the Paris area," he said.

Mr Leonard said that the balance sheet had weakened slightly in the current financial year with the $131m acquisition of the 670,000 sq ft San Francisco Center retail development on the West Coast of the US. Gearing remains below 40 per cent, he said.

Royal Bank of Canada books 4% earnings fall

By Bernard Simon in Toronto

ROYAL BANK of Canada has contained the damage of an unfavourable business climate to a 4 per cent drop in third-quarter earnings, thanks partly to modest exposure to the troubled North American leveraged buy-out and commercial property markets.

Net income at Canada's biggest financial institution slipped to C$230.4m, or 70 cents a share, in the three months to July 31, from C$239.1m, or 77 cents a share, a year earlier. Earnings for the first nine months of fiscal 1990 rose to C$759.3m from C$723.9m, with per share earnings at C$2.35, fractionally lower than last year.

Average third-quarter assets grew by 9.4 per cent to C$123.9bn, but return on assets narrowed to 0.74 per cent from 0.84 per cent. The rise in assets was due largely to higher residential mortgages and consumer loans.

RBC said yesterday that growth in these advances has started to slow, and was expected to fall further in coming months as the Canadian economy continued to cool.

Narrow domestic interest margins cut taxable net interest income by 2 per cent to C$913m, but fee-based income rose by 4 per cent to C$404m. The bank's investment-dealer subsidiary, RBC Dominion Securities, posted a small third-quarter profit.

Non-interest expenses jumped by 11 per cent. Two-thirds of the increase was generated by expansion in the retail banking division, which has added 60 branches and 700 automated teller machines in the past year. RBC has the largest branch and ATM network among North American banks. The bank's workforce has expanded by 3 per cent in the past year.

According to RBC "loan losses are higher this year, but not dramatically so." Non-performing loans, on which interest is 90 days overdue, jumped by C$315m in the latest quarter to C$1.2bn, largely as a result of the difficulties of Kinburn Technologies, a debt-burdened technology company.

Amex, Reuters plan electronic system for private market

By Janet Bush in New York

THE AMERICAN Stock Exchange and Reuters Holdings yesterday signed a letter of intent to develop and operate an electronic marketplace to trade private placement securities.

It will compete with the Portal system established by the National Association of Securities Dealers.

Both systems come in response to the liberalisation of the US private placement market by the Securities and Exchange Commission earlier this year.

Rule 144a lifts restrictions on the resale of unregistered securities and eases registration requirements for overseas companies intending to issue privately placed paper.

The Amex/Reuters system will be called SITUS – System for Institutional Trading of Unregistered Securities. The exchange and Reuters said they intended to launch the system in the first half of next year with a definitive agreement yet to be negotiated.

The two said yesterday that plans for the SITUS system come when there is strong interest in the private placement market among US institutions and overseas corporate issuers.

Hopes still run high that, after the current economic uncertainty and a period of education among investors and potential issuers, the private placement market and the two systems which will be its vehicle will become more popular.

The SITUS system will be a division or subsidiary of the Amex and use Reuters' advance technology and considerable presence in worldwide markets.

Placements suffer in economic doubt

By Stephen Fidler, Euromarkets Correspondent

PRIVATE placements of securities in the US market fell in the first six months of this year for the first time in more than 10 years.

Newly-released figures show the private placement market has suffered more from current economic uncertainty even than the public market, despite relaxations of US securities laws which have made private placements easier.

According to IDD Information Services of New York, private placements accounted for 26 per cent of funds raised in the US capital markets in the first six months of the year. This compares with 38 per cent of $479.5bn raised in the US market in the whole of 1989.

The amount raised through private placements fell 32 per cent from $84.1bn in the first half of last year to $56.8bn in the same period this year.

The private placement market, where issuers can bypass the often onerous reporting requirements of the Securities and Exchange Commission, grew steadily throughout the 1980s, peaking last year.

Financings dropped significantly in all categories, but most dramatically for non-investment grade securities and private placements related to ESOPs or employee stock ownership plans, where the decline against the first half of last year was more than 70 per cent. Private placements of securitised assets posted the smallest decrease, 14 per cent.

The figures show Goldman, Sachs remaining as the leading agent for private placements, retaining its 15 per cent market share, while Salomon Brothers held second place, raising more than in the same period last year. J.P. Morgan jumped to third place from fourth. First Boston and Bankers Trust both showed significant falls down the order.

Nine of the top 20 private placement agents, holding a 33 per cent market share in 1990, were commercial banks.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Wed Sep 5 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Tue Sep 4 Index No.	Mon Sep 3 Index No.	Fri Aug 31 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (195)	753.51	-0.2	15.03	6.17	8.14	24.69	754.68	762.55	762.56	999.77
2	Building Materials (26)	942.27	-0.4	16.14	6.40	7.64	31.55	946.20	954.10	961.83	1183.04
3	Contracting, Construction (36)	1170.12	-2.6	19.63	7.00	6.62	38.33	1201.10	1211.34	1214.75	1563.87
4	Electricals (10)	2104.25	+0.3	13.94	6.37	8.78	63.54	2098.95	2115.94	2119.80	3011.52
5	Electronics (27)	1618.56	......	10.21	4.96	13.27	55.48	1619.37	1619.91	1618.30	2245.94
6	Engineering-Aerospace (8)	429.33	-0.2	15.27	5.48	7.79	10.79	430.14	434.53	428.51	0.00
7	Engineering-General (46)	412.26	......	14.78	6.29	8.17	13.89	412.08	416.51	416.08	0.00
8	Metals and Metal Forming (6)	422.30	-0.5	27.33	7.97	4.45	16.68	424.63	429.97	428.05	526.32
9	Motors (13)	307.98	+0.4	17.43	7.66	6.68	12.78	306.68	309.53	308.95	362.73
10	Other Industrial Materials (23)	1333.96	+0.7	13.09	5.98	8.81	39.65	1325.32	1352.63	1351.89	1863.10
21	CONSUMER GROUP (178)	1185.20	......	10.36	4.29	11.93	25.09	1185.19	1195.48	1200.00	1392.62
22	Brewers and Distillers (22)	1461.02	-0.4	10.53	3.99	11.51	30.46	1466.77	1482.68	1490.32	1556.10
25	Food Manufacturing (20)	1002.79	......	11.54	4.81	10.70	23.22	1003.31	1013.12	1012.54	1197.87
26	Food Retailing (16)	2422.37	+0.1	9.62	3.41	13.20	45.88	2419.17	2426.74	2427.37	2650.03
27	Health and Household (16)	2295.15	+0.1	7.55	3.01	15.74	29.07	2292.86	2310.02	2313.44	2700.50
29	Leisure (32)	1224.66	-0.5	12.21	5.11	9.90	35.86	1230.89	1242.96	1252.97	1806.03
31	Packaging & Paper (12)	520.59	-0.4	12.52	6.63	9.82	14.71	522.68	529.71	529.34	605.43
32	Publishing & Printing (16)	3096.73	+0.1	11.74	6.05	10.68	105.00	3093.22	3114.01	3110.72	3804.50
34	Stores (33)	781.52	+0.6	11.37	4.83	11.40	16.55	777.00	785.50	794.88	901.90
35	Textiles (11)	420.49	+0.1	14.50	8.55	8.69	18.80	420.05	421.57	423.10	576.53
40	OTHER GROUPS (107)	1020.76	+0.2	12.47	5.82	9.71	28.17	1019.23	1028.44	1027.50	1208.57
41	Agencies (16)	1217.79	+0.9	8.37	3.22	14.45	20.34	1207.42	1204.19	1190.15	1602.65
42	Chemicals (24)	1040.36	-0.4	12.74	6.38	9.27	43.91	1044.17	1057.28	1059.26	1341.77
43	Conglomerates (15)	1408.41	-0.2	11.96	7.08	10.05	34.42	1410.82	1424.96	1427.29	1746.60
44	Transport (13)	1955.76	+0.3	12.68	5.32	10.01	49.33	1950.12	1962.31	1974.96	2426.48
46	Telephone Networks(2)	1137.50	+0.5	11.77	4.95	11.05	26.09	1131.80	1141.77	1137.09	1153.86
47	Water(10)	1909.59	-0.1	16.14	7.09	6.97	68.12	1911.43	1941.47	1956.49	0.00
48	Miscellaneous (27)	1509.80	+0.2	13.95	5.94	8.23	43.04	1506.32	1518.77	1509.17	1936.63
49	INDUSTRIAL GROUP (480)	1033.97	......	12.09	5.20	10.12	26.72	1033.86	1043.37	1044.89	1255.55
51	Oil & Gas (20)	2493.49	+0.6	10.00	4.95	13.09	70.93	2479.01	2486.86	2435.70	2217.98
59	500 SHARE INDEX (500)	1152.69	+0.1	11.75	5.16	10.51	30.29	1151.50	1160.96	1158.51	1337.55
61	FINANCIAL GROUP (107)	707.81	+0.3	–	6.68	–	28.24	705.66	711.94	714.72	810.53
62	Banks (9)	763.53	+0.6	21.41	7.52	6.12	41.50	758.69	764.03	770.32	823.52
65	Insurance (Life) (7)	1349.74	-0.2	–	5.48	–	37.79	1351.89	1364.30	1358.35	1230.65
66	Insurance (Composite) (6)	587.72	-0.8	–	7.22	–	21.72	592.42	601.87	606.19	637.52
67	Insurance (Brokers) (8)	837.69	+1.6	10.20	7.67	12.92	33.25	824.19	850.68	847.24	984.22
68	Merchant Banks (7)	384.96	+1.2	–	5.28	–	11.93	380.21	382.66	383.53	395.40
69	Property (47)	938.05	+0.5	9.20	5.22	13.92	22.64	933.73	937.13	937.90	1381.65
70	Other Financial (23)	256.80	+0.6	11.06	6.92	11.76	8.95	255.20	256.38	255.79	370.57
71	Investment Trusts (66)	1063.68	-0.2	–	3.71	–	22.49	1066.32	1075.51	1070.34	1279.54
91	Overseas Traders (5)	1269.12	-0.2	10.98	7.21	10.88	59.65	1271.36	1275.14	1274.97	1451.46
99	ALL-SHARE INDEX (678)	1045.08	+0.1	–	5.34	–	29.47	1043.83	1052.48	1051.08	1209.80

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Sep 4	Sep 3	Aug 31	Aug 30	Aug 29	Year ago
FT-SE 100 SHARE INDEX‡	2152.2	+4.2	2165.4	2146.6	2148.0	2166.6	2162.8	2153.6	2125.7	2390.8

FIXED INTEREST

	PRICE INDICES	Wed Sep 5	Day's change %	Tue Sep 4	xd adj. today	xd adj. 1990 to date
	British Government					
1	Up to 5 years	117.01	+0.11	116.89	–	8.12
2	5-15 years	120.45	+0.16	120.26	–	9.43
3	Over 15 years	122.84	+0.29	122.48	–	8.25
4	Irredeemables	139.79	+1.05	138.33	–	8.85
5	All stocks	121.36	+0.16	121.16	–	8.97
	Index-Linked					
6	Up to 5 years	149.61	+0.02	149.58	–	2.46
7	Over 5 years	137.01	-0.14	137.21	–	2.86
8	All stocks	137.85	-0.13	138.02	–	2.83
9	Debentures & Loans	98.42	+0.17	98.25	–	8.36
10	Preference	74.58	+0.03	74.56	–	4.01

	AVERAGE GROSS REDEMPTION YIELDS		Wed Sep 5	Tue Sep 4	Year ago (approx.)
	British Government				
1	Low	5 years	10.96	11.05	9.70
2	Coupons	15 years	10.96	11.05	9.31
3		25 years	10.96	11.05	9.23
4	Medium	5 years	12.02	12.05	10.71
5	Coupons	15 years	11.53	11.55	9.73
6		25 years	11.25	11.29	9.35
7	High	5 years	12.12	12.15	10.82
8	Coupons	15 years	11.79	11.81	9.92
9		25 years	11.55	11.58	9.50
10	Irredeemables	†	11.06	11.18	9.28
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	4.77	4.77	3.00
12	Inflation rate 5%	Over 5 yrs.	4.32	4.31	3.50
13	Inflation rate 10%	Up to 5 yrs.	3.64	3.63	2.21
14	Inflation rate 10%	Over 5 yrs.	4.14	4.13	3.34
15	Debs &	5 years	14.02	14.06	13.06
16	Loans	15 years	13.02	13.10	11.65
17		25 years	12.85	12.87	11.22
18	Preference	†	12.80	12.80	10.19

‡Opening index 2146.6; 9 am 2155.3; 10 am 2158.1; 11 am 2165.3; Noon 2162.9; 1 pm 2162.3; 2 pm 2158.2; 3 pm 2158.6; 4 pm 2158.0; 4.10 pm 2157.9; (a) 10.55am (b) 8.30am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	64	11	22
Corporations, Dominion and Foreign Bonds	5	0	17
Industrials	222	394	953
Financial and Properties	117	174	447
Oils	24	21	43
Plantations	0	0	10
Mines	14	51	95
Others	32	81	131
Totals	478	732	1,718

LONDON RECENT ISSUES

EQUITIES

Issue Price	Am'nt Paid up	Latest Renunc Date	1990 High	1990 Low	Stock	Closing Price	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
–	F.P.	–	131	108	ABI Leisure 10p	108	-2	R4.7	3.3	5.8	7.1
–	F.P.	–	7½	4	Bennett & Fountain Wts.	7		–	–	–	–
50	F.P.	–	49	42	ECU Trust 10p	45½	-½	–	–	–	–
–	F.P.	–	23	17	Do. Warrants	20		–	–	–	–
–	F.P.	–	46	33	Exp Co of Louisiana Wts	45		–	–	–	–
2	F.P.	–	2	½	Finlan Group 1p	¼		–	–	–	–
–	F.P.	–	14	6	Fisher (Albert) Warrants	7½		–	–	–	–
†	F.P.	–	75	43	Golden Vale Ir1p	46	+1	ɑ0158%	5.1	3.2	8.4
100	F.P.	–	98	86	Jupiter Euro Inv Trust	86		–	–	–	–
–	F.P.	–	38	28	Do. Warrants	28		–	–	–	–
–	F.P.	–	23½	17	Latin Amer Inv Warrants	18½	-2½	–	–	–	–
$108	F.P.	–	116	106	♦Lovercrest 5p	106		R4.05	2.4	5.1	8.5
–	F.P.	–	44	18½	Lucas Inds. Warrants	20	-1	–	–	–	–
–	F.P.	–	22	20	♦MMI 1p	22		1.0	2.4	6.1	8.5
96	F.P.	–	100	90	Malvern UK Index Tst10p	98		–	–	–	–
–	F.P.	–	7	4	♦Oliver Res Warrants	6		–	–	–	–
†	F.P.	–	17	12	♦Paramount 2½p	12½		–	–	–	0.93
–	F.P.	–	31	21	Paribas French ® Wrnts	25	-1	–	–	–	–
100	F.P.	–	90	87	River & Merc Smaller Co	90		K3.75	–	5.6	–
–	F.P.	–	26	21	Do. Warrants	25		–	–	–	–
130	F.P.	–	156	143	Seton Healthcare 10p	147	+1	L3.75	2.2	3.4	13.1
$100	F.P.	–	102	93	Siam Select. Growth Tst.	97		–	–	–	–
–	F.P.	–	38	28	Do. Warrants	34		–	–	–	–
–	F.P.	–	43	28	Southend Prop Warrants	28		–	–	–	–
–	F.P.	–	6	1½	♦Tullow Oil Warrants	4	+½	–	–	–	–
–	F.P.	–	208	155	Turkey Trust	188		3.2	1.2	2.3	45.0
–	F.P.	–	75	70	Do. Warrants	70		–	–	–	–
42	F.P.	–	2½	1¼	♦United Energy 1p	1¼		–	–	–	–
42	F.P.	–	2	½	♦Do. Warrants	¼		–	–	–	–

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc Date	1990 High	1990 Low	Stock	Closing Price £	+ or -
101.73	F.P.	-	103½	100	Anglian Water 5½pc Index-Lnk Ln 2008	103½	
100	F.P.	-	101	80	♦Bluebird Toys 12pc Cv. Uns. Ln. 2005	85	
♦	F.P.	-	87p	65p	European Leisure 8.75p (Net) Cv Rd Pf	65p	
♦	F.P.	-	49½	45½	Expl. Co. of Louisiana Ser. A Cv Pf	49½	+2
100p	F.P.	-	115½p	96p	Hepworth Cap Fin. 11¼pc Cv. Bds 2005	105p	-½
100p	F.P.	-	102p	95p	Perkins Foods 8p (Net) Cv Rd Pf	96p	+1
♦	F.P.	-	90p	81p	Rank Org. 8.25p (Net) Cv Cm Rd Pf 20p	84p	
100p	F.P.	-	108p	107p	Reckitt & Colman 9.5pc Cv Bds 2005	107½	
100	F.P.	-	107½	101¼	Tesco Capital 9pc Cnv. Cap. Bd. 2005	106	+½
243p	F.P.	-	275p	237p	Tomkins Units Non Int Ln 6p	240p	
100p	F.P.	-	105p	85p	Wyndham Group 9.375pc Cm.Pf	85pxd	
-	F.P.	-	55p	35p	York Trust 8.5p (Net) Rd.Cv.Pf 20p	40p	+4

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc Date	1990 High	1990 Low	Stock	Closing Price p	+ or -
28	Nil	–	½pm	½pm	BOA Hldgs 10p	½pm	
18	Nil	–	⅜pm	¼pm	Broad Street	¼pm	
30	Nil	–	½pm	¼pm	♦Filofax 5p	½pm	
50	Nil	–	1¼pm	¼pm	Gardiner Group 5p	1¼pm	
110	Nil	–	¾pm	¼pm	Kingston Oil & Gas 50p	¼pm	
220	55	21/7	86	33	Ratners	56	+4
14	Nil	–	4pm	3pm	S.I. Group 5p	3½pm	+½
10	Nil	–	2pm	¼pm	Sheraton Secs. Intl. 10p	¼pm	
180	Nil	–	4pm	¼pm	Telfos 20p	2pm	
16	Nil	–	2pm	¼pm	Westworth Intl. Grp. 10p	¼pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ψ Issued by tender. § Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. †† Reintroduction. ♦ Unlisted securities market. * Third Market. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

- First Dealings Aug. 28
- Last Dealings Sept. 14
- Last Declarations Dec. 6
- For settlement Dec. 17

For rate indications see end of London Share Service

Calls in Corton Beach, Glencar Explns., Ivernia West, Next, Ovoca Gold and Tuskar Res. Put in Proteus Intl.

LONDON TRADED OPTIONS

DERIVATIVE MARKETS had a sluggish day which was dominated once again by heavy trading in BP options.

The general view was that hedging against an increasing flare-up in the Middle East had already been carried out and, because premium levels were high, dealers were concentrating on writing options for a better return on their overall portfolios.

Analysts said they expected the market to remain dull throughout this month, but to become far more aggressive in October.

On the traded options market, more than 3,000 BP contracts - the bulk of the BP trade - had been exchanged by mid-morning. *At the close the figure was 5,641.*

Analysts said the heavy turnover was a continuation of the previous day's burst of activity when one firm traded more than 4,000 contracts and a total of 9,147 contracts were exchanged.

BP was still way above the second biggest trade of the day, BT, which accounted for 690 puts and no calls.

The securities firm James Capel said the BT trade was principally defensive.

Total trading during the day dropped to 21,653, well below the previous day's acceptable level of 36,267, and slow dealing was evenly spread between calls (10,844) and puts (10,809).

Dealing in the FT-SE options dropped to 5,395 from 8,561 on the previous day. There were 4,182 puts and only 1,203 calls.

On the LIFFE, the FT-SE September contract opened 15 points ahead of fair value in the morning but dropped back to remain at a premium.

BZW said they had been selling *September FT-SE futures, which* will expire at the end of the month, and buying December issues.

Two other securities firms were been selling the December issue and buying September. One analysts said that shifting from one issue to the other accounted for 1,000 of the 3,000 contracts exchanged.

The spread was at a one-point discount to a fair value of 57.

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Alld Lyons (*483)	420	72	83	100	3½	6½	11
	460	36	54	71	7	16	20
	500	15	31	48	25	32	36
ASDA (*113)	100	17	22	–	2½	4	–
	110	9	16	19	5	7½	9
	120	4½	11	14	11	13	15
Brit. Airways (*170)	160	16	20	25	5	8	11
	180	6	11	15	15	18	22
	200	1½	6	8	32	34	35
[illegible]							

Option		Calls Oct	Calls Jan	Calls Apr	Puts Oct	Puts Jan	Puts Apr
Utd. Biscuits (*322)	300	27	42	47	5	9	13
	330	9	23	30	18	23	26
	360	3	11	17	44	45	46
Unilever (*628)	600	46	66	85	10	20	24
	650	17	36	56	32	40	45
	700	5	18	34	75	77	79
Ultramar (*366)	330	43	60	70	4	10	14
	360	23	40	48	12	20	25
	390	9	–	–	28	–	–
[illegible]							

Option		Calls Sep	Calls Dec	Calls Mar	Puts Sep	Puts Dec	Puts Mar
Abbey Nat. (*210)	200	14	23	29	2½	7	10
	220	3	12	16	14	16	16
Amstrad (*56)	50	8½	11	14	1½	3	4
	60	2	5½	9¼	5½	8	9
Barclays (*354)	330	28	45	58	3	8	11
	357	8	27	–	13	14	–
Blue Circle (*205)	200	8	18	25	5	11	12
	220	2¼	9	16	22	23	24
[illegible]							

UK COMPANY NEWS

US paper operations expanded by $60m purchase

Pulp price instability cuts Wiggins Teape to £86m

By John Thornhill and Andrew Freeman

WIGGINS TEAPE Appleton, the UK paper company which was demerged from BAT Industries earlier this year, saw pre-tax profits fall 9 per cent fall in the first half as it suffered from pulp price instability in Europe and North America.

The company also announced yesterday that it was to expand its US paper operations by the purchase of Boise Cascade's paper mill in Vancouver, Washington State, for $60m (£31.7m). This acquisition will establish Wiggins Teape on the West Coast and bolster its capacity in the carbonless, thermal and speciality coated paper markets.

In the six months to June 30, pre-tax profits amounted to £85.9m, compared with the £94.5m achieved on a pro-forma basis last time round. Sales grew from £765.9m to £800.6m.

A maiden interim dividend of 3.3p was declared, in line with the prediction made when Wiggins Teape was introduced to the market. Earnings per share came to 10.9p, against a notional 11.9p.

Presenting the first set of results as a separately-listed company, Mr Stephen Walls, chairman and chief executive, said almost all of the decline could be attributed to the forestry and pulp operations.

Their contribution to trading profits, including results from associated companies, fell

Stephen Walls: must drive costs out at all levels

£10.1m to £16.4m. Lower pulp prices, destocking at paper mills and adverse currency movements were blamed for the shortfall.

Paper manufacturing profits held up reasonably well at £73.3m (£74.7m), while paper merchanting profits increased to £9.2m (£9.1m).

The geographical split of trading profits was: Europe £50.4m (£61.3m); North America £43.3m (£45m); and other regions£500,000 (£600,000).

Mr Walls said the outlook for the second half was for "more of the same". Downward pressure on pulp prices would continue and the European market for paper products would remain extremely price competitive.

But advantages would accrue from strong demand for carbonless products in the US, improving synergies and cost reduction. "We must continue to drive costs out of our business at all levels," he said.

● COMMENT

The cautious reception granted to Wiggins Teape's first results since the June demerger suggests that the market is having difficulty analysing the group's pulp to specialist paper *operations, but has read the* basic message correctly. A lack of UK companies for comparison is clearly a hindrance to interpreting figures which show a company riding the volatile industry cycle as best it can and significantly better than some US rivals. A very dull second half outlook means *improvements will have to be* concentrated on margins and productivity. The acquisition of Boise's paper mill, if approved, is sound – it fits *exactly that strategy*. At 167p, down 2p, the shares are on a prospective p/e of 8.8, assuming full-year pre-tax profits of £155m, compared with £174m the year before. That is hardly a premium rating, but there seems little prospect of strong recovery in the present climate.

T&N offsets poor automotive result for 15% rise

By David Owen

A REDUCTION in asbestos-related disease costs has enabled T&N, the engineering and automotive component group, to report a 15 per cent increase in pre-tax profits, from £40.2m to £46.1m, for the first half of 1990.

That was achieved despite a marginal decline at the operating level, where profits were depressed by a near 20 per cent reduction in the contribution from the automotive components division mainly because of restructuring costs.

Mr Colin Hope, chairman, was guardedly optimistic as to future prospects. "The breadth and quality of the company's products, combined with the *benefits from cost reduction* and efficiency improvements, are a sound basis for further progress", he said.

Group turnover rose 3 per cent to £623.1m (603.2m), while the operating profit reached £62.5m (£62.9m).

The cost of processing claims concerning asbestos-related damages charges against the group amounted to £5.9m, compared with £14.7m last time which included a £9m additional provision. These ongoing costs were expected to continue to approximate to just under 1 per cent of annual turnover for the foreseeable future.

Financing charges rose to £11.8m (£9.1m), despite a sharp decline to 17 per cent in the group's debt:equity ratio. This will rebound to in excess of 40 per cent when debt associated with the recent $190m (£99m) acquisition of J.P. Industries, the US vehicle parts company, *is accounted for*.

Automotive component sales were essentially maintained, with the strongest advance achieved in friction products. That was attributed to "significant market share gains" in France and good sales in US.

Engineering and industrial unit restructuring included the relocation of certain US gasket and composite materials activities to comparatively low-cost *sunbelt states*. "We have several other candidates for similar treatment", Mr Hope said.

Earnings per share improved 7 per cent to 11.41p (10.69p) and an interim dividend of 3.6p (3.5p) is declared. Loan stock offered in the second instal*ment of the group's* £127m rights issue earlier this year is to be converted to ordinary shares on September 21 and will thus qualify.

The shares dipped 2p to 155p

● COMMENT

Automotive component stocks are in bad odour at the moment and the risk of further unexpected payments on the asbestos front means that T&N must almost inevitably trade at a discount to the sector. The undemanding prospective p/e of about 7, based on full-year profits of £95m-£97m, is therefore scarcely surprising. This is rather harsh on incumbent management which has done little wrong and has pulled off a sizeable transatlantic purchase that has been widely applauded for its strategic intent. That said, there seems no compelling short-term reason to buy the shares. Those considering doing so will be *weighing the undoubted attrac*tions of an anticipated 9¼ per cent yield against the risk of more nasty asbestos-related surprises.

Andrew Taylor reports on profit falls at three leading construction companies

Blue Circle dips 7% to £93m

FALLING UK cement sales and prices caused pre-tax profits of Blue Circle, the country's biggest cement manufacturer, to decline by 7 per cent from £100.3m to £93m in the first half.

The group said it had been forced to reduce prices to regain market share lost at the beginning of the year after rival manufacturers cut their prices.

Blue Circle's cement sales in the UK during the half year fell by about 14 per cent, compared with a 10 per cent fall for the industry as a whole.

Mr James Loudon, finance director, said the company had recaptured much of the lost ground and was close to regaining the 46 to 47 per cent share of the UK market for cement products it held at the end of last year.

The battle for market share marks the first real price competition the UK cement industry has experienced since three years ago when it ended a 50-*year-old manufacturing price* fixing agreement.

Cement sales and prices have been rising for most of the time since the agreement was abandoned. This position has now reversed as the construction sector has gone into retreat.

Blue Circle's UK cement profits during the first half fell by 30 per cent from £53.5m to £37.2m. This was offset partly by a 35 per cent rise in UK home products profits from £16.4m to £22.1m.

Profits from the latter source would have fallen slightly but for a first-time inclusion of earnings from Myson. The home products division, which is due to sell its lawnmower businesses, continues to suffer from the same high interest rates which have damaged the housebuilding industry.

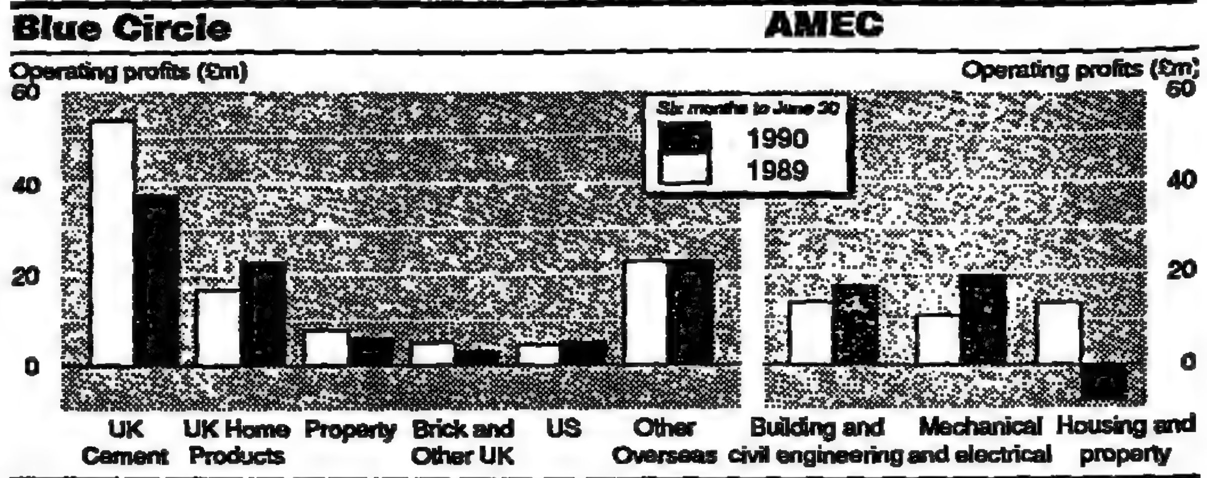
The property development business produced profits of £5.7m, almost £2m lower than the £7.5m earned during the first half of last year.

The group's fortunes overseas were more mixed. Profits of £4.6m from the US were £200,000 higher in spite of reduced input from the north-east and Atlanta cement businesses. Blue Circle warned that the outlook for its US and UK businesses remained depressed.

Profits from Asia, the world's second fastest growing region for construction orders after continental Europe, rose from £3.5m to £6.8m. Further growth is expected in the second half.

African profits during the first half increased from £8.5m to £9.3m.

Blue Circle said gearing at the end of June was 34.1 per cent. Operating cash flow remained strong. The interim dividend is raised from 3.5p to 3.75p.



Property loss cuts AMEC 25%

A COLLAPSE in UK residential and commercial property profits sent pre-tax profits of AMEC, the construction engineering and property group, tumbling by 25 per cent in the six months to the end of June.

Mr Alan Cockshaw, chairman, said the fall would have been steeper but for strong per*formance from the civil engi*neering and mechanical and electrical services division.

Turnover rose to £1.3bn (£922m) but the profit fell from £38.1m to £28.6m. Fully diluted earnings per share declined to 8.1p (10.6p). The interim dividend is raised to 3.875p (3.625p).

Housing and commercial property incurred a loss of £8.5m, compared with profits of £13.2m in 1989 and £10.8m in 1988.

The resilience of some of AMEC's other civil engineering, process plant and mechanical and electrical interests helped underpin the group's share price, which yesterday rose 3p to 200p.

Mr Cockshaw said profits from construction and engineering had risen by almost 50 per cent to £37.1m (£24.8m).

Building and civil engineering profits were up 26 per cent, from £13.9m to £17.6m, while those from mechanical and electrical engineering jumped more than 75 per cent, from £10.9m to £19.5m.

The group's gearing of 15 per cent was substantially better than many other companies in the sector. AMEC was particularly strong in offshore engineering where investment has risen strongly recently.

It was also well positioned in UK civil engineering where orders, particularly for roads and water projects, were expected to be better than for general building, which was already beginning to be affected by the fall in demand for commercial property.

Building and civil engineering orders had risen by £1bn during the first six months of this year and at the end of June stood roughly at the same level as 12 months previously.

The chairman warned, however, that margins were likely to come under pressure as work fell away in the private sector.

"I warned earlier this year that 1990 would be tough but that 1991 would be tougher."

House sales this year were expected to be about 1,470, against 1,750 last time. No major commercial property sales had been made in the *first half*. Earnings, Mr Cockshaw said, had been hit particularly hard because of group policy of writing off interest as it occurs on commercial and residential developments.

AMEC had made no provisions against its housing and property *interests during the* first half. At the end of last year it made provisions on housing losses of between £10m to £15m. It would be reconsidering its position again at the end of the year.

WPP in video training venture

WPP Group, the advertising and marketing services company, and David Paradine, the television and film production concern headed by Mr David Frost, have linked to buy Results Training for a sum approaching £500,000.

Mr Richard Denny, founder of the video and audio training company, will continue as managing director.

Mr Frost will say "hello, good evening and welcome" to Lord Hanson, Sir James Goldsmith, Sir John Harvey-Jones and Mr Mark McCormack in four videos in a series called "Take It From The Top: the Business of Business Success."

SelecTV deeper in red

LOSSES at SelecTV, the USM-quoted production company, increased from £156,161 to £442,480 in the year to March 31 1990, but Mr Michael Buckley, the chairman, said they were in line with directors' expectations.

Mr Buckley said that while the television screening of two series, "Birds of a Feather" and "Nightingales", generated satisfactory revenue, this was not enough to support the level of expenditure necessary to create an infrastructure suitable for the future.

As this had now been completed, the level of losses incurred in the year would not be repeated, he stated.

The company should now benefit from its involvement in the development of comedy series, in both the UK and US, the chairman said. The directors were confident that the current year would reflect this through the sale of an increasing number of series and a consequent improvement in profitability.

Turnover rose to £95,141 (£76,438), while operating losses reached £636,217 (£196,551).

There was no tax (same) and loss per share was 0.89p (0.31p). The dividend was again omitted.

UK housing market collapse hits Wimpey

PRE-TAX profits of Wimpey, Britain's largest housebuilder, fell by 72 per cent from £45.2m to £12.6m during the first six months of this year.

Sir Clifford Chetwood, chairman and chief executive, said the recession, which was now spreading to other areas of construction, was "the worst I have seen in a lifetime in the industry."

Earnings per share tumbled from 10.01p to 2.57p as Wimpey's interest bill rose from £15m to £20.9m. Group borrowings increased by £47m to £429m. Gearing at the end of June was about 60 per cent.

A substantial proportion of the £5.9m increased interest charge was due to expenditure on construction at Little Britain, one of London's largest commercial property developments.

Wimpey is negotiating to sell a 50 per cent stake in the development which would reduce some of the strain on its finances. Negotiations with a potential investment partner were progressing satisfactorily, said Sir Clifford.

The large fall in group profits was due almost entirely to the collapse of the UK housing market. Combined profits of Wimpey's other contracting, minerals and property businesses were about the same level as during the first half of 1989.

Wimpey has always refused to reveal individual performances of its various divisions, of which UK housing is easily the largest.

Sales of houses of 2,718 were 19 per cent lower than the 3,377 achieved during the first half of last year. Sir Clifford said margins on house sales had been reduced substantially. These were unlikely to improve until interest rates came down.

There had been a slight increase in sales of homes overseas from 1,061 to 1,108, but results in Texas, Florida and Georgia had been adversely affected by savings and loan crisis in the US. Overseas house completions in the second half of this year were likely to fall.

Contracting had benefited from a strong order book at the beginning of the year but there were signs that the UK market was weakening. The Middle East crisis threatened a number of overseas markets. At the end of June work in hand stood at £1bn, compared with £1.3bn a year earlier.

"It will inevitably become harder to replace work as it is completed," said Sir Clifford.

The minerals divisions on both sides of the Atlantic had been affected by the weakness in construction in the UK and US and the group would be slowing its *investment* programmes.

However, despite the big fall in earnings, the group will maintain interim dividend at 4p.

Leading Leisure to study list for suitable suitor

By Andrew Jack

LEADING LEISURE, the troubled hotel, sports centre and bingo hall operator quoted on the Third Market, may receive a takeover bid, the company said yesterday.

The board is "approaching a selected list of parties with a view to their taking some form of participation in the group, which might include the possibility of a full offer," according to a statement made after the close of trading.

The announcement came after a further deterioration in the company's share price. The price plunged from a high of 77p a year ago to a low of 12p on August 29. The shares closed up 5p yesterday at 18p before the announcement.

Directors were unavailable for comment last night.

Mr Barry Malizia, the chairman and chief executive, announced at the annual general meeting last July *that* Leading Leisure was "actively exploring" a link-up with another company to develop its portfolio of leisure assets. The payment of a proposed 1½p final dividend was announced at the same meeting.

Mr Malizia told the meeting that "confidence needs urgently to be restored with our bankers and creditors." The company had suffered from debts of £66m and a gearing of 140 per cent.

IN BRIEF

CAPARO INDUSTRIES' subsidiary, Caparo Steel Stockholders, has purchased Steelstock (Burton-on-Trent), an established general steel stockholder with turnover of £3.2m in 1989-90. Mr Peter Minns, the present owner, will be staying with the business.

PACIFIC ASSETS Trust: Net asset value per share was 262.7p (244.3p) undiluted as at July 31 1990, or 236.2p (220.9p) diluted. After-tax revenue for six the months period was £154,000 (£7,000), earnings per 50p share 0.8p (0.06p).

PARAMBE (investment holding company): Pre-tax profits *for six months to June 30* were £60,387 (£18,528). Gross investment income £75,891 (£85,565), dealing income £55,841 (£15,831). After tax £18,116 (£5,095) earnings per 10p share *0.66p (0.21p). Interim dividend* 0.55p (0.5p). Net asset value per share 79p (82.2p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Anglo American Gold Inv., Appleyard, *Baltica*, *Blackwood Hodge*, *Burmah Castrol*, City & Commercial Inv. Trust, Cookson, Courtaulds Textiles, Dartmoor Inv. Trust, Enterprise Oil, Evans Halshaw, Forwell, Gibbs & Dandy, INSTEM, Intl. Business *Comms.*, *Intrum Justitia*, *Laird*, *Lionheart*, Portals, Reckitt & Colman, Russell (Alexander), Tyne Tees Television, Vinten, Wilson Bowden, Wilson (Connolly)

Finals- London *Merchant* Securities.

FUTURE DATES

Interims-	
Abbeycrest	Sep. 13
Abbott Mead Vickers	Sep. 12
Alexandra Workwear	Oct. 9
Asda Property	Sep. 11
Beauford	Sep. 18
Breedon	Sep. 21
British Fittings	Sep. 13
Candover Invs.	Sep. 10
Connell	Sep. 19
Hall Engineering	Sep. 12
Hogg	Sep. 26
MB	Sep. 20
Proudfoot (Alexander)	Sep. 21
Ransomes	Sep. 17
Tesco	Sep. 18
Thermis	Sep. 13
Try	Sep. 12
Finals-	
Magnetic Materials	Sep. 17
Molyneux Estates	Sep. 10
Primadona	Sep. 12

UK COMPANY NEWS

Poultry and egg profit surge more than offsets beef downturn

Hillsdown expands 22% to £82.6m

By Clay Harris, Consumer Industries Editor

HILLSDOWN HOLDINGS, the food, furniture and property group, shrugged off the woes of the UK housing market and concerns over mad cow disease to increase pre-tax profits by 22 per cent from £67.6m to £82.6m in the six months to June 30.

Earnings growth, however, slowed to only 3 per cent because of the shares issued to buy Premier Brands, the tea, jam and instant potato group for £195m in May 1989.

On turnover ahead by 13 per cent to £1.88bn (£1.66bn), the operating margin improved from 5.2 per cent to 5.6 per cent.

Mr Harry Solomon, chairman, said the results underlined the wisdom of having a diversified portfolio of businesses.

Profits from poultry and eggs jumped to £25.8m, eight times the figure achieved during last year's salmonella alarm.

This came in time to offset the latest health scare, over bovine spongiform encephalopathy, which reduced beef profits by £2m in the first half. Mr Mike Buswell, the director responsible for red meat operations, said the kill in Hillsdown's abattoirs had been reduced by up to 40 per cent during the "pretty horrific" months of May and June.

"While demand has not recovered completely, it's much better than I expected," running at 5 to 10 per cent below the same period last year, he said.

Demand for pork and lamb had risen to offset lower beef sales. Hillsdown is Britain's largest producer of all three meats, as it is of poultry and eggs.

Hillsdown sees an opportunity for market rationalisation in the financial problems of Mr Larry Goodman, Ireland's beef baron, who controls 7 to 8 per cent of UK abattoir capacity. "It is difficult to see the Irish government being prepared to support those plants," Mr Buswell said.

Premier Brands contributed £10m in profits during the half.

The collapse of Lowndes Queensway will cost Christie-Tyler, the domestic furniture subsidiary, £5m in the second half, said Mr Kevin O'Sullivan, finance director. Lowndes accounted for 7 per cent of Christie-Tyler's sales.

Hillsdown said it had reduced its UK property portfolio by 40 per cent to less than £100m over the past year. Fairview, the housebuilding subsidiary, sold more units than in the same period last year and built up its land bank.

Earnings per share rose to 11.92p (11.62p) or 11.39p (10.98p) fully diluted. The interim dividend goes up to 2p (1.8p). Net interest payments rose to £22.9m (£18.8m), and the estimated tax charge crept up to 21.4 per cent.

Capital expenditure rose by 50 per cent to £63m in the first half, with a forecast full-year total of £120m. Among the projects due to be completed are a bakery mix and flour milling extension in Canada and sandwich, chilled salads and potato packing and grading plants in the UK.

See Lex

FIRST HALF RESULTS BY ACTIVITY (£m)

	sales	change %	operating profit	change %
Food processing and distribution	777.5	+24	44.3	+47
Fresh meat and bacon	401.8	+16	11.1	+3
Poultry and eggs	364.8	+13	25.8	+706
Furniture	198.2	+26	8.5	-3
Housebuilding/property	68.7	-32	14.1	-47
Specialist operations	68.1	-32	3.8	-56
Head office costs	-	-	-2.1	+11
Total	1879.1	+13	105.5	+22

Lower interest charges aid Senior Eng

By Andrew Jack

FALLING interest payments helped Senior Engineering increase pre-tax profits to £8.15m for the six months to June 30, compared with £7.6m for the same period last year.

The international specialist engineering group announced a 7 per cent increase in profits on a turnover up 22 per cent to £156.64m (£128.21m).

But operating profits fell to £8.68m (£9.18m) and pre-tax profits were sustained by interest charges cut from £1.58m to £529,000.

Mr Don McFarlane, deputy chairman and group managing director, said operating profits were reduced by redundancy costs of some £750,000 above the line, spent while restructuring its acquisitions.

Margins had been reduced by a more competitive market, explained Mr McFarlane, but he stressed that volume and turnover had been maintained.

He called the results "good in view of the market" which he said was becoming more difficult because of high inflation, high interest rates and rising exchange rates.

Last year's debt was increased to fund the purchase of several acquisitions, but the company had reduced gearing to 12 per cent in the interim following a two-for-seven rights issue in June 1989.

Senior does not release an interim profits breakdown for its five divisions, but a statement issued by the company said that Construction Services, whose businesses produce ventilation and air conditioning equipment, "did well."

Engineering Products, which makes tubes and flexible hoses, maintained market share despite moving one division to a new site in South Wales. Heat Treatment "continued to produce good returns."

Mining Equipment had experienced lower profits, but the company said it expected improvements having cut the workforce and changed executive management.

The Thermal Engineering division was doing well in North America, but its industrial power products companies "are not achieving satisfactory results."

Earnings per share dropped to 3.1p (3.32p) and the dividend is unaltered at 1.08p.

The shares closed the day up 3½p at 42½p.

● COMMENT

Solid yet stolid. That is how some view Senior, which has *quietly been building* significant market share in a number of engineering service areas and has produced a good set of results in comparison with the sector as a whole.

Gearing is under control. While the order books seem healthy, some long term contracts like work at Sizewell nuclear power station may be delaying more painful contraction of orders over the next few months.

Results were in line with expectations, but Senior may suffer from a negative perception of the current poor prospects for its sector: unfortunately tube and ductwork is not the most inspiring area for investors at any time.

On forecast pre-tax profits for the year of around £18m, earnings per share are 6.6p giving a p/e ratio of 6.4.

Speciality side pushes Croda to £17.2m

WITH speciality chemicals showing good growth, Croda International lifted its pre-tax profit from £16.5m to £17.2m in the first half of 1990.

Mr Michael Valentine, chairman, said he was cautiously optimistic for many of the businesses for the second half. But the interim dividend is being held at 4.1p from unchanged earnings of 8.8p, and an increase in the total will be considered when the year's results are available.

Turnover in the first half rose from £185.4m to £191.2m. Although the trading environment in the UK was significantly more difficult, Mr Valentine said, the UK chemicals businesses performed well, particularly in export markets.

Speciality chemicals accounted for the major part of profits. Its sales rose 8 per cent to £83.5m and profits 17 per cent to £11.8m. Those businesses with substantial export sales produced "outstandingly good" results.

The three smaller businesses had mixed fortunes, while Surface Coatings suffered a modest setback after many years of rising profits.

Capital expenditure reached £12m, but would fall in the second half as the expansion and modernisation at Rawcliffe Bridge were almost complete.

GCI purchase

GCI Group has bought McAvoy Wreford Bayley, the financial and corporate public relations consultancy, from VPI Group, the marketing company which recently announced plans to go private, for about £1.5m.

Under the proposals, VPI will be bought by the Tranwood Earl Consortium Fund, a fund managed by a subsidiary of Mr Peter Earl's Tranwood, in a deal which values it at £7.1m.

NEWS DIGEST

Peter Black advances to £10.3m

PETER BLACK Holdings, the personal care, footwear, home furnishings and accessories group, raised its pre-tax profit by 7 per cent from turnover ahead 3 per cent in the year ended June 2 1990.

Turnover was £142.8m (£138.4m) and profit £10.3m (£9.6m). Earnings per share came to 13.26p (13.03p) and the final dividend is 2.07p for a total payment up from 2.4p to 2.84p.

Mr Gordon Black, joint chairman, said in the current year that turnover was up, and with strict overhead control and improved factory efficiencies, he looked for continued progress.

Even after funding a £5.3m capital expenditure programme core borrowings were reduced, but the benefit was lost through higher interest rates. The interest charge was over £1m more and included £700,000 payable on the loan notes issued against the acquisition of English Grains.

Mr Black said personal care was the fastest growing area of the group and accounted for over 25 per cent of turnover.

Footwear still contributed some 40 per cent although that had fallen from 60 per cent two years ago. Rationalisation continued with the disposal of Morlands.

In home furnishings, high interest rates affected sales; despite substantial investment in new product development and modern factories, progress had therefore been restricted.

Stat-Plus sounds note of caution

Stat-Plus Group, the office and legal stationery retailer, raised pre-tax profits by 32 per cent from £2.24m to £2.96m, in the first half of 1990.

However, the directors cautioned that the general economic slowdown had affected commercial work undertaken by lawyers and this could have an impact on results for the full year.

First-half turnover slipped 4 per cent to £6.01m (£6.34m). Earnings per share came to 8.7p (8.4p) and the interim dividend was 2.75p (1.75p).

Heritage over £1m in the red

Heritage, the USM-quoted housewares and textiles distributor, ran deeper into the red in the second six months ended April 30 to end the year with a pre-tax loss of £1.18m. This compared with a £668,000 deficit at halfway and a profit of £844,000 for the previous full year.

The final dividend was omitted leaving the 1.29p interim to compare with a 3.87p total previously. Loss per 10p share was 16.74p (11.25p earnings).

Mr Jeffrey Lampert, the chairman, said the group had stopped expanding by acquisition and over the next period would seek to return to profitability by a combination of organic growth, reduced overheads and a reduction in borrowings.

Turnover was £1m higher at £11.55m.

Donelon Tyson up to £1.13m

Donelon Tyson, broadly-based construction group, yesterday reported a 9 per cent rise in first half profits from £1.04m to £1.13m.

Sales rose 91 per cent from £24.18m to £46.15m and operating profit was £2.27m (£1.25m), but interest payable of £1.14m (£203,000) reined in the advance at the pre-tax level.

Mr Sean Donelon, chairman, said that demand had slowed and the overall order book was not as buoyant as hoped for. However, the board was confident of a satisfactory outcome for the year. The dividend for the year would be at least at a similar level to the previous 0.75p, coupled with the scrip alternative.

Albert Fisher in Spanish venture

Albert Fisher Group has entered into an agreement with Larios, a private Spanish drink products group, to form a joint company in Spain, to be called Albert Fisher Larios.

The venture's purpose is to acquire and develop companies involved in the processing, sale and distribution of a range of food products in Spain and Portugal.

The company will be formed with an initial capital of Pts 1bn (£5.4m) with shares held equally by Albert Fisher and Larios.

American Tst net asset value slips

Edinburgh-based American Trust's net asset value eased from 180.8p to 179.7p at July 31, with profits after tax for the half-year falling from £2.04m to £1.96m.

Although investment income rose to £2.96m (£2.77m), there was a drop in interest receivable at £452,000 (£683,000) while administration costs went up to £450,000 (£370,000).

Earnings worked out at 2.36p (2.45p) per share. The interim dividend was 1.45p (1.4p).

US contribution aids Nestor-BNA

A first-time contribution from US activities of £825,000 offset a decline in nursing agencies performance, resulting in a 61 per cent increase in first half profit at Nestor-BNA.

The healthcare services and specialist personnel group scored £3.54m at the pre-tax level, up from £2.2m and the directors expect another advance in the second half.

First-half sales rose 35 per cent from £34.48m to £46.6m. The interim dividend is raised to 1.15p (1p) on earnings per share of 4.4p (3.32p).

Operating profit included a reduced contribution of £1m (£1.62m) from nursing agencies and some £565,000 (£431,000) from hospitals and nursing homes. Doctors deputising services put in £273,000 (£247,000) and specialist personnel £515,000 (£417,000).

Shorco shows slight fall to £412,000

Shorco Group Holdings, a Leeds-based construction equipment supplier, reported a 5 per cent fall in taxable profit from £440,000 to £412,000 in the first half of 1990. The company said that its specialised products insulated it from the experience of general suppliers.

Turnover of this USM-quoted company was £3.57m (£2.94m), a rise of 21 per cent. After tax of £146,000 (£154,000) earnings per share came out at 9.1p (9.7p) or 9p (9.2p) fully diluted.

The interim dividend is raised to 2.4p (2p).

Associate leaves Dunton in the red

Dunton Group fell into the red in the second half of the year to end-May after taking into account losses of an associate housebuilder.

The USM-quoted Buckinghamshire-based property developer, contractor and brick maker reported a pre-tax loss for the year of £184,000, against profits of £1.11m. The operating profit was £1,231 (£1.02m).

Directors are proposing to pass the final dividend leaving the total for the year at 0.48p (1p).

Turnover was lower at £3.23m (£3.94m). The tax charge was £41,000 (£385,000) for a loss per share of 0.7p compared with earnings of 3.56p.

Interest payments cut Quicks to £1.6m

Sharply increased interest payments at Quicks Group, the north-west and Midlands motor distributor, resulted in a 17 per cent decline in first-half profits.

Turnover in the six months to June 30 rose 16 per cent from £107.94m to £125.64m, but interest took £1.39m (£827,000) and the employee share scheme £85,000 (£103,000), leaving taxable profits at £1.61m (£1.95m). The interim dividend is maintained at 2p.

WSP up 44% and raises dividend

WSP Holdings raised taxable profits by 44 per cent from £442,000 to £636,000 in the six months to June 30. The acquisitive engineering consultancy more than doubled sales from £2.24m to £5.31m.

The directors said that improved profit margins due to the successful integration of Parsons Brown and Donald Rudd would benefit the second half, and more significantly 1991.

The company was in talks with various clients regarding development of business in Europe and elsewhere.

A loss of £31,000 on minorities in the first half and increased tax of £212,000 (£161,000) left earnings per share up 19 per cent at 4.9p (4.1p). The dividend has been raised by 0.2p to 1.1p.

Herring Son little changed at £1.79m

Herring Son & Daw, the commercial estate agent and property adviser, reported pre-tax profits little changed at £1.79m, against £1.78m, for the six months to July 31 in what the company described as tough trading conditions.

Turnover rose from £6.26m to £6.66m, interest received was £140,000 (£116,000) and tax took £660,000 (£653,000). Earnings per share were 9.71p (10.25p).

Mr Nicholas Owen, chairman, said that strong performance by James Barr & Son in Glasgow and prudent cost controls which prevented unwise expansion in London, helped the results.

Because of the continued strong professional work and expected "solid earnings" from 1990 rating revaluation, there was realistic confidence for the year, and an interim dividend of 3p (2.5p) was declared.

North Sea upturn lifts Fairhaven

A substantial upturn in activity in the North Sea helped Fairhaven International, a USM-quoted specialist in the oil, gas and petrochemical construction industries, increase interim taxable profits from $1.31m to $5.61m (£2.98m).

The gain for the six months to June 30 was achieved on turnover of $157m ($89m) and included an exceptional item of $1.6m from the disposal of interests in the twin-tanker companies Atlan and Aztlan.

After tax of $1.74m ($360,000) retained profit was $3.87m ($949,000). Earnings per share worked out at 1.7 cents (0.4 cents). Again no dividend will be paid.

The group intends to apply for a full listing on the London Stock Exchange next year.

Osprey bucks trend with 41% advance

In contrast to recent trends in the advertising and marketing services sector, Osprey Communications saw its pre-tax profit advance 41 per cent in the year ended May 31.

The advance to £1.56m (£1.11m) was generated on turnover 59 per cent ahead to £30.94m (£19.44m).

Mr John French, chairman and chief executive, said the results combined continued growth from core business and increased contributions from companies acquired over the last two years.

"I think the results reflect the benefits of having a broad spread of both services and clients and not being heavily dependent on any one activity or industry."

Earnings per share fell to 8.38p (9.63p) as a result of a number of earn-out payments in shares. The final dividend is 3p, for a total of 4.35p (3.6p).

Fall at Allied Partnership

Allied Partnership Group, a forklift trucks, agricultural equipment and plant hire specialist, reported taxable profits down from £3.37m to £2.42m in the six months to June 30.

The 26 per cent profits decline was on turnover lower at £57.94m (£63.51m). After tax of £646,000 (£817,000), earnings per share were 2.31p (3.37p). The dividend was maintained at 1p.

Mr Martyn Rose, chairman and chief executive, said the markets in which the group operated continued to decline, some quite sharply. "We are reducing operating costs in line with reduced activity levels until our markets recover," he added.

UK COMPANY NEWS

Housing decline cuts Williams Holdings gains

By Andrew Hill

DEPRESSION in the UK housing market has cut first-half profits at Williams Holdings from £71.4m to £60.6m before tax, and could end the conglomerate's eight-year run of improving annual figures.

Williams claimed a 4 per cent drop in interim trading profits from continuing businesses was creditable given the difficult economic conditions in Britain, and is increasing the interim dividend from 4.5p to 4.75p.

Mr Nigel Rudd, the chairman, said a strong balance sheet and good margins meant the group was well placed to take advantage of any economic recovery.

But some City analysts have reduced their full year forecasts to as little as £120m before tax, which would be 22 per cent down on the £153m of 1989. The shares fell 13p to 217p yesterday.

High interest rates in the UK and the slump in property prices deterred housebuyers and hit Williams' up-market home improvements division, which sells conservatories and exclusive fitted furniture through its Banbury Compton, Amdega and Smallbone subsidiaries. In 1989 the homes and gardens division made £5m-£6m in operating profits; in the first half of 1990 it only just broke even.

Mr Rudd said he did not expect any improvement in the trading environment until the middle of next year: "These are large-ticket items that will only come back when the housing market comes back and interest rates come down."

The do-it-yourself business – which includes Polycell products – also experienced a difficult half, although mainland European and US operations partially offset the poor trading in the UK. The

Nigel Rudd: strong balance sheet and good margins

consumer and building products division reported trading profits of £25.8m, against £31.4m.

Those figures excluded a profit of £9.7m (£15.4m) from businesses sold during the year, principally the Crown Berger UK paints business bought by Nobel Industries in May. The £205m deal realised a profit of £79.1m below the line, and cut borrowings.

The industrial and military products division, which makes up just under half of group business, had a better six months and trading profits improved from £31m to £34m.

Mr Rudd said those engineering subsidiaries dependent on the slack automotive industry had suffered, but there was a strong contribution from fire protection operations, particularly those supplying the civil aviation industry.

The sale of Crown Berger led to a drop in overall group turnover, from £503m to £467m, and earnings per share fell to 10.8p (12.5p).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allied Partnshp	int	1	-	1	-	2
AMEC	int	3.875	Dec 31	3.625*	-	9.5*
American Trust	int	1.45	Oct 17	1.4	-	4.5
BAT	int	10.7‡	Jan 3	10.3	-	30
Black (Peter)	fin	2.07	Oct 22	1.75	2.84†	2.4
Blue Circle	int	3.75	Nov 22	3.5	-	11
Croda	int	4.1	Dec 3	4.1	-	11
Heritage§	fin	nil	-	2.58	1.29	3.87
Herring	int	3	Nov 2	2.5	-	5.75
Hillsdown	int	2	Dec 31	1.8	-	7.2
Nestor-BNA	int	1.15†	Oct 30	1	-	3
Osprey Comms	fin	3	-	2.4	4.35	3.6
Parambe	int	0.55	-	0.5	-	1.5
Quicks Group	int	2	Nov 15	2	-	6
Senior Eng	int	1.08	Nov 30	1.08	-	2.86
Stat-Plus	int	2.75	Oct 19	1.75	-	5.5
T&N	int	3.6	Nov 15	3.5	-	10.75
Wiggins Teape	int	3.3‡	Nov 8	3	-	7.6
Williams Hldgs	int	4.75	Oct 3	4.5	-	11.5
Wimpey (George)	int	4	Oct 19	4	-	10.5
WSP Holdings	int	1.1	Oct 19	0.9	-	2.4

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Makes 20.7p (19.6p) to date. ‡Scrip option.

Heady growth of a 'green' company pruned

Andrew Bolger on the changing fortunes of the acquisitive Caird Group and its chairman

THERE IS likely to be little that will be environmentally friendly about the atmosphere today when Mr Peter Linacre, chairman and chief executive of the Caird Group, meets institutional shareholders in the waste disposal company.

Analysts said the institutions were "jumping up and down" about the performance of Caird, which shocked the City on Tuesday when it brought forward its results to announce profits which were sharply below expectations, prompting a collapse in the share price.

Caird has been the fastest-growing company in the fashionable and highly-rated British waste disposal sector, heavily promoting a "green" image with investors in the UK and US.

Mr Linacre has made 50 acquisitions since he joined Caird, at that time a Dundee-based property company, in 1987. Since then its market value has grown from £4m to peak in July this year at £125m.

On Tuesday the shares fell from 152p to 84p and yesterday they eased further to 70p, valuing the group at £37.3m. Caird reported pre-tax profits of £5.49m for the year to June 30, against analysts' predictions of £8.5m to £9m.

The Stock Exchange is conducting an inquiry into recent dealings in Caird shares. Mr Linacre said the results announcement had been brought forward by two days because there appeared to have been some leak about the disappointing figures.

Mr Linacre is no stranger to City controversy. He was cleared of possible insider dealing by a Department of Trade and Industry investigation following his dismissal as an equity salesman by Merrill Lynch in December 1986.

Merrill alleged that Mr Linacre broke internal rules on dealings with transactions in the shares of Grand Central Investment Holdings, a food production and distribution company.

Mr Linacre admitted he dealt on his own account in Grand Central shares shortly before a share placing by the company, and that he made a profit of a few thousand pounds on the disposal. However, he said the transactions were done openly, through Merrill Lynch itself, and were intended to facilitate the placing by Grand Central, which was a Merrill client.

Last year Mr Linacre held a dinner in the City to celebrate his clearance by the DTI inspectors after a 19-month inquiry. His guests included loyal fund managers who followed him into the Caird Group. At the dinner, he was toasted for having escaped after being caught "going 31 mph in a 30 mph zone."

Mr Linacre will put his case to institutional shareholders this morning at the offices of Caird's stockbroker, County NatWest WoodMac.

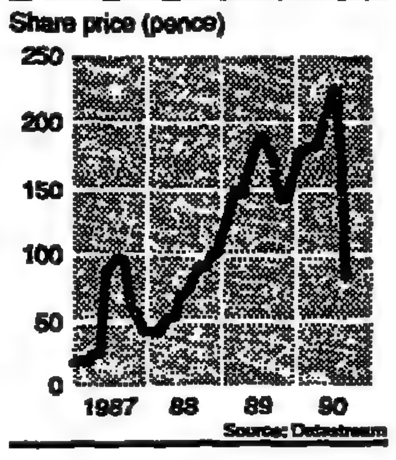
City analysts were agreed that Caird's troubles lay in the speed of its growth. One said: "The key question is whether it has bought basically sound businesses and mishandled the acquisitions, or has it bought a pile of second-rate operations?"

Most analysts felt Caird has probably been paying over the odds for privately-owned companies which it has found to be not nearly as profitable as it had been led to expect. There is a widespread suspicion that Mr Linacre has been too concerned with chasing the next deal to properly investigate all of the group's purchases.

One analyst said of Mr Linacre: "He had this huge environmental audit done of Caird, whereby he knew every gas and piece of waste coming into the group, but he obviously did not know what was happening financially."

Mr Linacre said last night that Caird did overpay for some of the businesses it had acquired - but some had proved to be marvellous moneyspinners.

Caird Group



Mr Linacre has said that some private companies required heavy expenditure to bring their operations up to the necessary legal environmental standards, but such spending would occur throughout the year and analysts cannot understand why Mr Linacre was until recently making optimistic noises about the company's results.

One analyst said: "Either there was something very wrong with the company's financial controls or an enormous amount of wool was being pulled over Linacre's eyes. I don't know which is worse."

Mr Linacre insisted that there had never been any intention on his part to pull the wool over anyone's eyes. It was only when the figures were pulled together in June that he realised that operating profits on the environmental side would be pulled down by writedowns arising from recent acquisitions.

There was also general puzzlement about Mr Linacre's statement that he had decided not to take up to £3m in profits on several properties which had been put into joint ventures. Analysts said Caird had never before claimed any property profits, and in any case no auditor would allow such gains to be shown in the profits and loss account.

Mr Linacre said last night that whether or not such property profits could be taken above the line was a "grey area" and the company had eventually decided not to do so. However, the profits which analysts had been expecting had always included that element and that had been made clear to them.

Analysts emphasised that Caird has about £12m in cash because last October it launched a £34.5m rights issue of 35m convertible preference shares. It has made acquisitions by issuing its previously highly rated paper.

Preference shareholders feel particularly aggrieved because they bought in at a price far above today's value. The preference shares, which yesterday closed 8p down at 65p, peaked earlier this year at 148p.

The next big development in the Caird story could come from the other side of the Atlantic. The group might be an attractive target to the large US waste management companies such as Waste Management and Browning Ferris International.

US institutions will also be represented at this morning's meeting with Mr Linacre. Analysts pointed out that US investors tended to be much more litigious than in Britain.

Mr Linacre said that although there may have been failures of communication, he was sure that nothing in the conduct of the company or its recent share issues could leave it open to legal action.

He said: "Many of these institions are friends of mine and it is very painful to me that this has happened." He said he would make every effort to rebuild the credibility of the company, which he accepted had been had been greatly damaged by these results and the way in which they emerged.

		Six months to June 1989	1990	Change
PROFIT BEFORE TAX		£668m	£592m	−11%
INTERIM DIVIDENDS PER SHARE	– ACTUAL	19.60p	20.70p	+ 6%
	– PROFORMA*	17.25p	20.70p	+20%

COMMODITIES AND AGRICULTURE

High-cost gold mining in Canada's frozen wastes

The Colomac mine's owner is banking on economies of scale to turn a profit, writes Kenneth Gooding

GEORGE BROWN starts his journey to work at Canada's newest gold mine with a six-hour bus ride from his home in Saskatchewan to Edmonton. From there he takes a two and a half hour flight to the Colomac mine, 137 miles north-west of Yellowknife, capital of the Northwest Territories. He then works a 12-hour shift every day for two weeks before having two weeks off.

The rest of the mining industry is taking particular interest in Colomac. Not just because it is so far north and located in such a remote area but because it is trail-blazing in a number of ways to overcome the disadvantages of high costs and a very low quantity of gold in its ore.

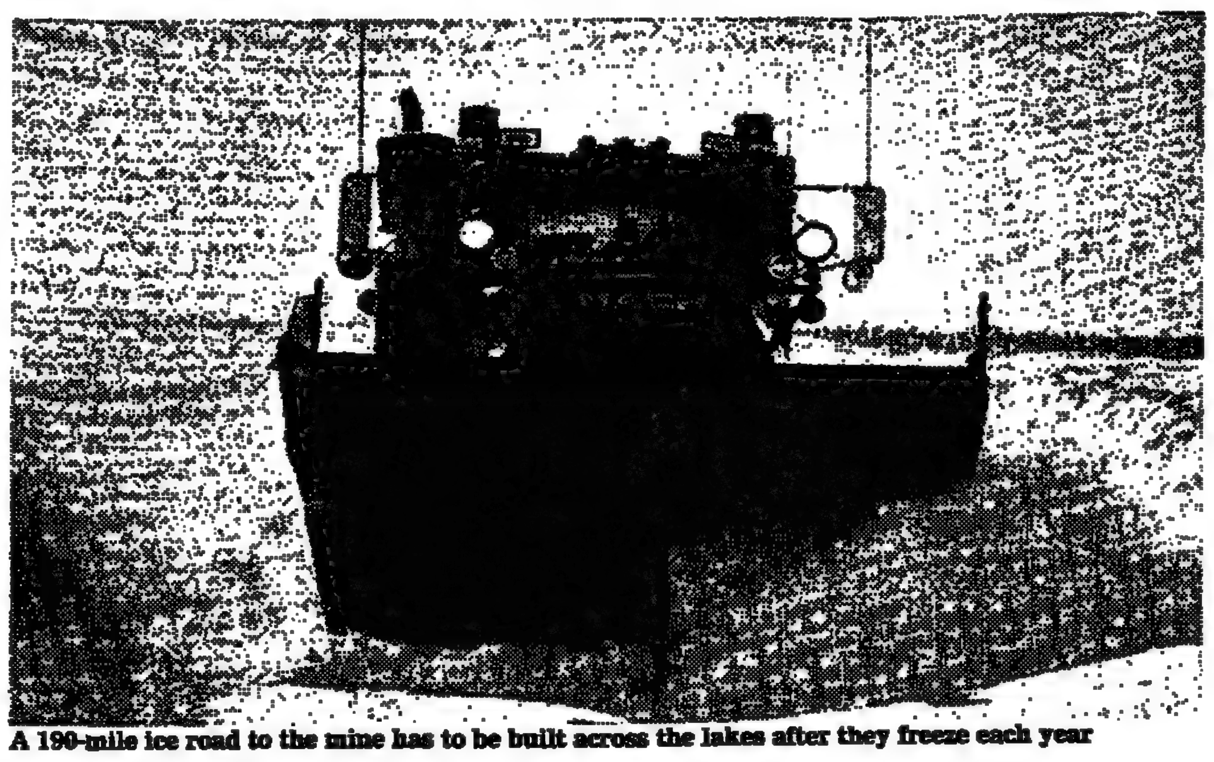
Mr Brown, safety officer at Collomac, left Edinburgh in Scotland for Canada 30 years ago. He was laid off in January when the local uranium mine closed down and is pleased to be back at work even if it does mean a tiring long-distance commute.

The only way over land to Colomac is via an ice road newly built every year for 190 miles over a series of lakes *after they have frozen to a* depth of three or four feet. Then, for about 12 weeks between January and March or April, the lakes can bear the heavy loads that have to be trucked into the mine.

During the construction of the $200m mine, trucks rolled day and night on the 1,100-mile trip from Edmonton, taking just over 48 hours for each journey. Most of the materials and equipment needed were transported over the ice road early last year. About 1,200 loads were shipped, averaging 24 short tons each but with some exceptions – such as the 32-ton main drive shaft for the mill.

The operation was carried out with military precision. Failure to ship certain loads on time would have delayed the project a full year.

The fear of truck and equipment breaking through the ice was very real and an ever-present. One driver says the ice creaks ominously almost continuously. "It scared me the first time. Now I just close the window."



A 190-mile ice road to the mine has to be built across the lakes after they freeze each year

For year-round access by air a 5,000 foot airstrip has been built at a cost of C$5m at Colomac. *It is capable of taking an* aircraft as big as a Hercules or a Boeing 737.

Miners traditionally have gone to great lengths and suffered great hardships in their search for gold but Colomac is unusual because the precious metal is spread so thinly through the rock. Nearly every North American mining group of any stature, including Cominco and Newmont Mining, has looked at Colomac since it was first discovered in 1946. But until now all walked away because the sums did not add up.

On average, each ton of Colomac ore contains only 0.064 of an ounce of gold and most companies would not consider mining at anything less than 0.2 of an ounce.

But the owner, NorthWest Gold (until recently known as ABM Gold) and its parent, Northgate Exploration, believe that the application of economies of scale can make the mine profitable.

It has built the largest single gold processing facility in Canada – and second-largest in North America – at Colomac, including a mill capable of gobbling up 10,000 tons of ore a *day or 450 tons an hour*. For every ton of ore, 3.24 tons of waste material will also have to be shifted.

One of Colomac's trucks with a full 85 tons of ore on board is carrying only about five ounces of gold or enough to make a nugget only the size of a golf ball. But at today's prices that is worth about US$2,000.

However, careful control of ore grades (selecting the rock with the right levels of gold) will be essential and require great expertise.

And to get out as much gold as possible, the mill will operate 24 hours a day. For Colomac is designed to produce 200,000 troy ounces of gold a year.

"It doesn't take any more people to run a 10,000 ton mill than it does to run a 1,000 ton mill. A lot of our costs are fixed, or nearly so, regardless of how much ore we treat," points out Mr Jim Johnstone, the Scottish-born mine manager.

But sometimes the size of the project does mean added cost. Six diesel generators have been installed – with enough power to supply a town of 12,000 – to ensure that the mill keeps going. About 8m gallons of fuel a year has to be trucked in and stored, adding about $40 an ounce to the cost of producing gold at Colomac this year.

The total average cash operating cost per ounce over the life of the mine is forecast to be US$260. When more than $100 an ounce in additional costs, such as depreciation, is taken into account, Colomac has very little room for manoeuvre if the gold price remains at the $400 level.

But, if the gamble pays off, other mining companies are likely to follow the lead set by Colomac and mine very low-grade deposits.

Mr John Kearney, Northgate's chief executive, says the challenge for his operations people is to meet tonnage, grade and cost targets. "Get two out of three wrong and you are in trouble."

On top of that the mine has to cope with two crucial variables outside management's control – the gold price and the value of the Canadian dollar (which it pays out for goods and services) versus the US dollar (in which it is paid for its gold).

"Any gold price below $350 an ounce is a killer for Colomac because then it could not service its debt," Mr Kearney admits. And "it will be a long time before NorthWest Gold shows any earnings."

However, the debt is structured to protect the parent, Northgate. "If Colomac is not a success it would not be a financial disaster for Northgate, just a great disappointment."

He says: "There are risks in any mining operation and we believe that the opportunity to become a major North American gold producer is more than ample compensation for those inherent in Colomac."

The capital cost of Colomac – C$166m – was financed through a C$90m non-recourse project loan from an international consortium of banks lead by Bank of America and including Banque de la Societé Financiere Européene and National Australia Bank.

Northgate's total exposure is C$50m, including C$15m for equity. NorthWest put up C$25m for equity.

While the banks seem to have most to lose, they have insisted that Colomac's future production be sold forward to lock in enough cash flow to cover operating costs this year and next. For 1990, some 100,000 ounces of gold has been hedged at a minimum of $360 an ounce.

On the positive side, the Colomac ore is metalurgically simple, free from impurities and at least 94 per cent of the gold should be recovered. Mine manager Mr Johnstone, an Edinburgh University graduate, points out that Colomac is *not* trail-blazing in the mining and processing techniques being used, which include open-pit mining and carbon-in-pulp and electro-winning to extract the gold. "We are being very conventional. Everything we are doing here has been tried successfully somewhere else."

Colomac has chalked up another first, however, by being the first mine in Canada's history to sign a socio-economic agreement directly with the local native population. The contract with the Dogrib Tribal Council provides for at least 25 per cent of the mine's workforce to be drawn from the local native population and for local residents to be made aware of business opportunities associated with the mine – an important consideration in an region where unemployment is running at 40 per cent in some communities.

Mr Kearney says that the Dené people have responded well to on-the-job training. "They are proving to be excellent machine operators and very reliable. But they are not too ; happy about having to look at control panels all day."

Providing business opportunities will take longer. Mr Kearney suggests the native people might eventually provide camp services, catering and transport. Meanwhile, he estimates that the mine will be pumping C$15m a year into the region.

So far enough ore reserves to keep Colomac going for eight years have been located but if the costs are to be reduced more gold must be found. Last year C$1.5m was spent on exploration around the mine site and this year another $2m will be spent.

Colomac poured its first gold in May and it is on target to reach its full rate of output this month. The mine will absorb another C$20m to $30m of cash this year, mainly for buying fuel and supplies to be stored. Mr Kearney says: "UntilColomac has operated all year round in normal conditions, we won't know about our operating costs. But there is currently no reason to suspect that our estimates are wrong.

"We have a lot riding on Colomac – not only credibility. Anything that can be done by man, we have done. But we can't control the price of oil or the price of gold."

Brazil's U-turn on discredited alcohol scheme

By Christina Lamb in Brasilia

BRAZIL'S 4.5m owners of alcohol-powered cars may have some reason to be thankful for the Gulf crisis. In reaction to rising oil prices, President Fernando Collor has relaunched the controversial "pro-alcohol" programme to reduce dependence on imported oil.

The plan, the world's largest and most expensive attempt to develop an alternative to petrol, has been widely considered a disaster. President Collor was one of its critics, saying he would never drive an alcohol-fuelled car.

Conceived during the oil shocks of the 1970s to conserve foreign exchange, the programme led to the production of the world's first all-alcohol-powered cars. However, while oil prices sank below $20 a barrel, the price of alcohol was $50, making it totally uneconomic. Moreover, the high number of alcohol cars produced under government incentives meant Brazil's own production could not satisfy the market and was forced to import from the EC. Now few will buy alcohol cars and their percentage of annual sales has plummeted from 85 per cent in 1985 to 4.87 per cent in July.

But with oil prices rising as a result of the Gulf crisis, the programme has been given a new lease of life. Brazil imports 50 per cent of its oil requirements and the increased prices mean an extra $1bn on its bill. So, three years after denouncing the programme and publicly accusing the sugar-cane factories of wasting public assets, President Collor has resuscitated the plan. He said the Government intended to stimulate cane-growers to invest in production, adding: "Pro-alcohol should be a source of energy that is both economically viable and environmentally sound."

"We will give all support necessary to factories who want to improve productivity through modern technology," confirmed Mr Ozires Silva, the Infrastructure Minister. The cynics point out that for the last four years the sugar-cane harvest has been stagnant at 220m tonnes, while the number of alcohol cars in use has increased. This year, alcohol fuel production is expected to be 11.3bn litres, 600m less than last year.

The cost of alcohol production today is $54 a barrel, compared with around $42 at present for petrol. Subsidies allowing alcohol to be sold at lower prices than petrol have so far cost $7bn, which does not fit with President Collor's stance against government intervention.

Electricity companies plan futures experiment

By David Thomas, Resources Editor

THE ELECTRICITY companies in England and Wales plan to set up a dummy futures market in electricity shortly after they are privatised.

The companies hope that if the experiment is successful it could lead to the world's first futures market in electricity.

National Power, PowerGen and Nuclear Electric, the three generating companies in England and Wales, and the 12 regional electricity supply companies, yesterday agreed to explore prospects for an electricity futures market.

They hope to agree to set up a dummy electricity futures market with the London Futures and Options Exchange (Fox) soon after the completion of electricity privatisation in England and Wales, which is scheduled for next February.

The idea is for each of the electricity companies to be given a screen and trade on this dummy futures market for about an hour a day.

However, a number of technical problems remain to be solved before this dummy market is set up.

One is the basis on which the futures trading would be conducted, given that it would have to relate to the new physical market in electricity, known as the pool.

In particular, the futures market would have to choose indices relating to the prices in the electricity pool which are quoted on a half-hour basis.

Among the possibilities being considered by the companies is to have a contract which quotes an average price for each day, or for four periods during the day or for each of the *half-hour* periods.

Another issue is whether an electricity futures market should be tied in some way to the oil markets, since electricity prices at times of peak demand tend to reflect heavy fuel oil prices.

If these difficulties can be overcome, the electricity companies foresee generating companies, supply companies, large industrial users and traders as potential players on an electricity futures market.

Peru plans privatisation of metal and oil refining

PERU'S NEW Government is ready to open oil and metal refining to private capital, ending a virtual state monopoly in both industries, energy and mines minister Fernando Sanchez Albavera said yesterday, reports Reuters from Lima.

President Alberto Fujimori's Government also hopes to grant total or partial control of two big copper mining projects to private investors.

After two decades of heavy state intervention in mining and oil, the Minister said the cash-starved Government would seek private investors in all major new projects. "We are not going to launch any state projects," he declared. "First we must recover our international credibility."

President Fujimori's main goal for the vital mining industry is to revive private small-scale mining, which all but disappeared under former president Alan Garcia, Mr Sanchez said.

By injecting new life into small-scale mining and putting the industry's 40 per cent idle capacity back to work, the month-old Government hopes to increase production by about $400m over the next five years.

Metal exports last year earned Peru about $1.6bn worth of foreign exchange. Copper, silver, zinc and other metals account for about half of Peru's total export earnings.

"In the short term, we're interested in reactivating small mining . . . basically through credits," Mr Sanchez explained. "Small mines are important because they will generate economic activity around them."

Scores of tiny mines scattered across the Andean highlands have closed in the past few years because of a severe cash squeeze and, in the case of silver producers, low prices.

Mr Sanchez said the Government would welcome proposals from private investors to build oil or metal refineries, which would compete with state firms. But he said he did not expect refinery proposals in the short term.

"If someone is interested in building a refinery, and it would be profitable, he will find no opposition," the Minister said.

PetroPeru the state oil corporation holds a monopoly on oil refining and metals refining is almost entirely in the hands of state firms Minero Peru and Centromin. Copper and zinc refining are entirely controlled by the state.

Strike halts copper supply

MINERO PERU, which has been strike-bound for 20 days, has declared indefinite *force majeure* on deliveries of copper cathodes to Southern Peru Copper Corporation, and a separate declaration covering Southern Peru's own shipments is imminent, according to officials of corporation.

Southern Peru's copper blister, production of which is not affected, is refined by Minero Peru at the southern port of Ilo and then sold back as cathodes.

WORLD COMMODITIES PRICES

MARKET REPORT

Cash aluminium closed at the highest level since June 20 last year on the LME yesterday, rising by $50 to $1,909 a tonne. Analysts said the market is on track to rise above $2,000 in the fourth quarter, barring the effect of the Gulf crisis and high oil prices on Western economies. Yesterday's close was below the highs of the morning, when prices surged on consumer buying and short covering. Bouts of profit taking and hedge selling halted the advance, although renewed buying interest emerged on any dip. In contrast nickel prices fell sharply. The market looked a little overbought after rising to a 12-month high last week and was due for a correction, traders said. However, low warehouse stocks are still underpinning the market although fresh Soviet shipments are expected shortly. Copper closed above the day's lows after a flurry of short covering induced by a force majeure by Minero Peru. On the bullion market gold regained Tuesday's losses, partly because of the Iraqi president's call for a Holy War against the US and Saudi Arabia. Cocoa prices lost ground in both London and New York, where key support levels were broken by midsession.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$26.05-7.05w	+0.60
Brent Blend	$29.75-6.85w	+.725
W.T.I. (1 pm est)	$29.45-9.49w	+0.27
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$412-417	-8
Gas Oil	$295-298	+1
Heavy Fuel Oil	$105-110	
Naphtha	$300-303	+5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$387.00	+4.75
Silver (per troy oz)♣	475c	+4
Platinum (per troy oz)	$483.65	-0.05
Palladium (per troy oz)	$111.25	-0.05
Aluminium (free market)	$1900	+45
Copper (US Producer)	131c	-3
Lead (US Producer)	43c	
Nickel (free market)	555c	-15
Tin (Kuala Lumpur market)	15.25r	+0.15
Tin (New York)	269c	-2
Zinc (US Prime Western)	81c	
Cattle (live weight)†	104.29p	
Sheep (dead weight)†	143.05p	
Pigs (live weight)†	78.09p	
London daily sugar (raw)	$273.0q	+3.6
London daily sugar (white)	$328.0	+2
Tate and Lyle export price	£253.5	+1.0
Barley (English feed)	£112	
Maize (US No. 3 yellow)	£146.5w	
Wheat (US Dark Northern)	[illegible]	
Rubber (Oct)♥	52.50p	-0.75
Rubber (Nov)♥	52.75p	-0.75
Rubber (KL RSS No 1 Oct)	243.5m	-1.0
Coconut oil (Philippines)§	$305.0v	-1.5
Palm Oil (Malaysian)§	$290t	
Copra (Philippines)§	$207.5v	
Soyabeans (US)	$146	+1
Cotton "A" Index	81.60c	+0.20
Wooltops (64s Super)	458p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Sep/Oct. t-Dec. u-Oct/Dec v-Oct/Nov. w-Oct z-Aug/Sep y-Nov. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Sep	725	727	740	715
Dec	768	768	783	755
Mar	787	796	816	785
May	805	818	836	804
Jul	826	838	857	825
Sep	847	858	876	847

Turnover: 7964 (3732) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Sep 4 1012.98 (1014.97) 10 day average for Sep 5 994.69 (987.02)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low	
Sep	593	589	596	576
Nov	619	615	619	603
Jan	633	634	636	622
Mar	645	638	641	625
May	655	652	645	
Jul	665	665	660	655

Turnover: 5542 (4986) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Sep 4: Comp. daily 77.43 (78.41). 15 day average 76.63 (75.62)

POTATOES – SFE £/tonne

	Close	Previous	High/Low	
Nov	86.0	86.0	86.0	85.5
Feb	128.5	128.3	128.0	126.0
Apr	144.5		142.5	

Turnover 124 (111) lots of 40 tonnes.

SOYABEAN MEAL – SFE £/tonne

	Close	Previous	High/Low
Oct	105.00	107.50	
Dec	114.00	113.60	

Turnover 0 (10) lots of 20 tonnes.

FREIGHT FUTURES – SFE $10/index point

	Close	Previous	High/Low	
Sep	1165	1160	1160	1155
Oct	1170	1176	1176	1166
Jan	1183	1189	1189	1181
Apr	1188	1183		
Jul	1192	1193		

Turnover 138 (253)

GRAINS – SFE £/tonne

Wheat	Close	Previous	High/Low	
Sep	111.55	112.25	112.00	111.75
Nov	114.65	115.00	114.85	114.30
Jan	118.40	115.80	118.70	118.30
Mar	121.80	122.15	122.00	121.75
May	125.00	125.50	125.35	125.00
Barley	**Close**	**Previous**	**High/Low**	
Sep	109.10	109.20		
Nov	117.20	117.30	17.10	
Jan	120.50	120.65	20.50	20.40
Mar	121.60		21.40	

Turnover: Wheat 864 (300), Barley 50 (14). Turnover lots of 100 tonnes.

PIGS – SFE (Cash Settlement) p/kg

	Close	Previous	High/Low	
Sep	108.4		108.5	
Oct	109.5	109.5	109.5	109.0
Nov	107.4	107.5	107.0	
Apr	105.0		105.0	

Turnover 53 (41) lots of 3,250 kg

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Oct	246.40	246.40	247.80	241.40
Dec	244.00	242.00	242.00	233.00
Mar	236.00	231.80	236.30	232.40
May	234.60	232.00	235.40	233.00
Aug	236.80	234.00	234.60	
Oct	237.80	232.80	237.20	233.40
Dec	236.00	235.00	231.00	
White	**Close**	**Previous**	**High/Low**	
Oct	318.0	315.0	318.0	314.0
Dec	307.0	307.5	308.0	305.0
Mar	307.0	307.0	308.0	308.0
May	308.5	308.5	309.0	
Aug	313.5		312.5	
Oct	307.0		305.5	304.5

Turnover: Raw2043 (2355)lots of 50 tonnes. White 1767 (2300)
Paris- White (FFr per tonne): Oct 1853, Dec 1825 Mar 1829, May 1833, Aug 1873

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low	
Oct	29.71	29.20	30.00	28.98
Nov	28.51	27.00	28.70	27.95
Dec	27.60	27.00	27.80	27.30
Jan	26.85	26.33	27.30	26.85
IPE Index	28.85	27.99		

Turnover: 10189 (17458)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Sep	260.50	260.50	266.00	257.50
Oct	260.75	260.50	267.00	257.50
Nov	260.00	261.75	266.00	257.50
Dec	261.25	262.00	266.00	257.00
Jan	256.00	256.00	256.00	256.00
Feb	246.00	245.00	249.25	246.00
Mar	234.00	234.00	238.00	234.00
Apr	226.50	224.00	226.50	225.00

Turnover 14497 (18618)lots of 100 tonnes

WOOL

Stocks of wool in producing countries around the world are still rising rapidly. Australia, the leading supporter, is finding that heavier offerings as the seasonal bulge builds up are moving increasingly into the hands of the Wool Corporation in floor price support. Over half the offering at this week's sales was bought by the AWC. Even superfine merino wool, with offerings limited at this stage, is not finding buyers interested at prices much above the floor level. Sharp price declines last week in the previously favoured sector went further this week. New business is extremely difficult everywhere, and entirely hand-to-mouth.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 28,257 lots
Cash	1908-10	1859-70		1904-5		
3 months	1918-9	1883-4	1925/1895	1914-5	1919-20	61,244 lots
Copper, Grade A (£ per tonne)						Total daily turnover 16,457 lots
Cash	1525-7	1563-5	1535/1528	1528-30		
3 months	1504-5	1539-40	1535/1501	1512-3	1510-1	105,787 lots
Lead (£ per tonne)						Total daily turnover 1,941 lots
Cash	457.5-8.5	460-2	458.5/458.5	456-8.5		
3 months	458-60	461-2	463/458	468-60	468-60	11,489 lots
Nickel ($ per tonne)						Total daily turnover 7,223 lots
Cash	10800-50	11250-300	10925	10800-25		
3 months	10675-700	11050-300	10900/10650	10800-25	10725-75	8,710 lots
Tin ($ per tonne)						Total daily turnover 1,590 lots
Cash	5750-70	5735-65	5780/5775	5770-5		
3 months	5875-80	5872-3	5950/5880	5895-900	5860-70	5,634 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 10,386 lots
Cash	1580-5	1590-5	1580/1556	1580-5		
3 months	1495-6	1514-5	1525/1482	1489-91	1495-6	18,889 lots

LME Closing £/$ rate: SPOT: 1.8951 3 months: 1.8640 6 months: 1.8330 9 months: 1.8108

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	386¾-387¼	203¾-204¼
Opening	383¾-384¼	202-202½
Morning fix	384.60	202.668
Afternoon fix	385.30	202.246
Day's high	388-388½	
Day's low	382¾-383	
Coins	**$ price**	**£ equivalent**
Mapleleaf	396-401	208¼-211¼
Britannia	396-401	208¼-211¼
US Eagle	396-401	208¼-211¼
Angel	396-401	208¼-211¼
Krugerrand	386-389	203-205
New Sov.	91-93	48-49
Old Sov.	91-93	48-49
Noble Plat	469.65-487.40	259.20-282.30
Silver fix	**p/fine oz**	**US cts equiv**
Spot	250.70	475.75
3 months	259.80	486.25
6 months	266.80	494.55
12 months	286.65	515.05

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Nov	Jan	Nov	Jan
1800	151	116	27	65
1900	95	66	63	113
2000	56	35	118	179
Copper (Grade A)	**Calls**		**Puts**	
2650	213	160	38	85
2800	120	90	92	161
2900	76	58	146	225
Coffee	**Nov**	**Jan**	**Nov**	**Jan**
600	72	92	8	20
650	37	57	23	36
800	15	33	48	51
Cocoa	**Dec**	**Mar**	**Dec**	**Mar**
700	79	114	21	28
750	48	83	41	47
800	25	58	72	73
Brent Crude	**Oct**	**Nov**	**Oct**	**Nov**
2700		280	15	160
2750				
2800		160	180	220

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Sep	386.1	383.7	386.6	
Oct	388.2	385.0	391.0	384.4
Nov	390.8	388.3		
Dec	393.0	390.5	395.5	388.5
Feb	397.0	394.7	399.3	393.3
Apr	401.5	398.8	402.1	397.5
Jun	405.9	403.3	404.5	403.5
Aug	410.0	407.3	0	0
Oct	414.6	411.9	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Oct	481.9	[illegible]	[illegible]	[illegible]
Jan	484.2	488.4	487.0	484.0
Apr	492.2	492.5	489.0	[illegible]
Jul	496.2	497.2	497.5	494.5
Oct	500.4	502.4	0	0
Jan	508.2	506.0	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Sep	473.5	471.3	478.0	476.5
Oct	476.1	474.8	0	0
Nov	478.7	475.6	0	0
Dec	483.1	482.5	487.5	481.5
Jan	486.3	[illegible]	0	0
Mar	492.4	490.8	494.5	488.5
May	500.8	498.7	503.0	498.5
Jul	508.0	507.0	510.0	508.4
Sep	515.5	514.7	517.0	517.0
Dec	528.9	528.1	528.5	528.0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	126.15	128.10	127.50	125.50
Oct	125.00	126.90	126.20	124.80
Nov	124.05	125.40	124.00	124.00
Dec	122.20	123.75	123.75	121.80
Jan	120.15	121.40	120.50	119.00
Mar	115.90	117.10	116.50	114.00
Apr	114.45	115.85	0	0
May	113.00	114.20	113.20	111.80
Jul	111.65	112.85	0	0
Jul	110.20	111.40	110.40	109.90

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Oct	29.78	29.12	29.85	28.90
Nov	29.37	28.56	29.40	28.55
Dec	28.73	28.07	28.82	27.80
Jan	28.05	27.47	28.09	27.25
Feb	27.36	26.87	27.38	26.70
Mar	26.73	26.35	26.70	26.15
Apr	26.18	25.86	26.20	25.75
May	[illegible]	25.48	25.50	25.30
Jun	25.05	25.15	25.15	24.80

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Oct	8360	8230	8435	8100
Nov	8450	8134	8510	8150
Dec	8500	8234	8550	8225
Jan	8390	8164	8460	8230
Feb	7770	7849	7810	7710
Mar	7540	7408	7575	7475
Apr	7265	7149	7300	7250
Jul	7200	7124	7220	7200

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Sep	1250	1290	1290	1250
Dec	1286	1332	1333	1285
Mar	1342	1377	1397	1333
May	1369	1409	1390	1370
Jul	1403	1441	1450	1395
Sep	1440	1483	0	0
Dec	1465	1496	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Sep	100.25	98.10	100.25	97.00
Dec	103.70	101.20	103.90	100.10
Mar	106.85	104.50	106.85	103.30
May	108.70	106.50	108.00	105.55
Jul	112.00	109.00	110.25	108.50
Sep	114.00	111.40	112.00	110.50
Dec	117.00	115.00	114.50	114.50

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	10.77	10.52	10.88	10.62
Mar	10.81	10.46	10.89	10.64
May	10.63	10.42	10.61	10.45
Jul	10.54	10.43	10.56	10.45
Oct	10.49	10.36	10.50	[illegible]

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Oct	73.88	73.63	74.10	73.40
Dec	73.15	73.84	74.00	72.94
Mar	74.95	74.70	75.10	[illegible]
May	76.05	[illegible]	[illegible]	[illegible]
Jul	76.70	[illegible]	[illegible]	[illegible]
Oct	70.80	[illegible]	[illegible]	[illegible]
Dec	68.20	68.45	68.50	[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Sep	155.50	156.70	159.00	156.20
Nov	143.95	145.90	145.60	143.60
Jan	140.75	142.50	141.50	140.75
Mar	140.25	140.00	141.25	140.60
May	139.75	140.00		
Jul	139.25	139.50	141.00	[illegible]

INDICES

REUTERS (Base: September 18 1931 = 100)

Sep 5	Sep 4	mnth ago	yr ago
1798.3	1803.3	1784.6	1814.9

DOW JONES (Base: Dec. 31 1974 = 100)

	Sep 4	Sep 1	mnth ago	yr ago
Spot	129.94	-	132.32	128.58
Futures	132.92	-	132.64	128.63

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Sep	611/6	608/0	612/4	607/4
Nov	626/4	624/2	627/4	622/4
Jan	639/6	637/4	640/6	636/0
Mar	653/4	650/4	654/0	649/6
May	661/4	658/0	662/0	658/0
Jul	667/6	664/0	668/0	664/0
Aug	659/0	654/0	655/0	655/4
Sep	637/0	637/0	640/0	637/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Sep	24.37	24.37	24.49	24.29
Oct	24.29	24.13	24.48	24.15
Dec	24.45	24.29	24.59	24.30
Jan	24.57	24.41	24.71	24.50
Mar	24.74	24.52	24.90	24.62
May	24.85	24.70	25.03	24.80
Jul	24.95	24.70	25.05	24.75
Aug	24.55	24.37	24.70	24.55

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Sep	176.9	175.7	177.0	175.4
Oct	179.0	177.9	179.1	177.5
Dec	181.3	182.2	183.4	181.8
Jan	183.0	183.6	185.3	183.5
Mar	186.0	185.3	186.0	185.5
May	189.0	188.0	189.0	188.0
Jul	191.5	191.0	191.5	190.5
Aug	190.0	189.2	190.6	190.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Sep	243/2	240/6	243/4	239/4
Dec	250/0	[illegible]	250/4	[illegible]
Mar	244/6	243/2	245/0	240/2
May	251/0	250/4	251/2	249/2
Jul	255/4	253/4	254/4	[illegible]
Sep	233/2	[illegible]	[illegible]	[illegible]
Dec	252/4	[illegible]	[illegible]	[illegible]

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Sep	283/0	258/2	283/4	[illegible]
Dec	286/6	274/2	281/0	[illegible]
Mar	292/4	[illegible]	[illegible]	[illegible]
May	295/4	293/0	[illegible]	[illegible]
Jul	303/0	298/4	304/0	[illegible]
Sep	308/0	304/4	308/0	305/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Oct	77.27	77.02	77.60	76.87
Dec	77.40	[illegible]	77.42	[illegible]
Feb	74.60	74.67	76.02	74.45
Apr	75.87	75.37	75.70	75.12
Jun	73.32	73.25	73.50	[illegible]
Aug	71.52	71.55	71.60	71.52
Oct	71.85	71.75	[illegible]	[illegible]

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Oct	46.27	46.92	46.96	46.17
Dec	50.17	50.10	50.70	50.10
Feb	49.62	47.77	48.30	[illegible]
Apr	44.52	44.55	44.80	44.40
Jun	48.80	48.80	[illegible]	[illegible]
Jul	49.10	48.90	49.22	49.00
Aug	47.90	47.70	[illegible]	[illegible]
Oct	43.60	43.50	0	0

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.10	50.20	51.37	50.45
Mar	51.12	50.22	51.40	50.40
May	51.55	50.85	52.00	[illegible]
Jul	52.50	52.10	52.60	52.15

LONDON STOCK EXCHANGE

Early gains lost in sluggish trading

AN ATTEMPT by the London stockmarket to defy the bearish trend of UK corporate results ran out of steam at the close of yesterday's trading session when Wall Street reacted in early deals to developments in the Gulf.

A mid-session gain of more than 17 points on the FT-SE scale was supported by little more than technical buying from marketmakers responding to an active stock futures sector and the approaching close to the equity trading account. Turnover remained thin for most of the day and share gains were rapidly eroded when Wall Street, after some initial hesitation, turned down on reports that the President of Iraq had called for a holy war against US forces in Saudi Arabia.

The final reading showed the FT-SE Index at 2,152.2, with the gain on the day reduced to 4.2 and the market losing ground rapidly in the closing minutes. Three quarters of an hour before the official close, Seaq volume totalled only 257.6m shares, but the figure had jumped to 344.9m by the close, boosted by a clutch of bed and breakfast deals struck by investors seeking to establish tax losses; 290m shares traded through Seaq in the previous session, continuing the recent run of poorly-traded sessions.

Equities opened apprehensively as traders braced themselves for the day's list of company profits statements, but drew some heart from Wall Street's steady close overnight. Renewed hints from the London currency markets of early British entry into the European Exchange Rate Mechanism provided further encouragement.

In the event, the gloomy news from the corporate front, characterised by a comment from the chairman of George Wimpey, the second largest housebuilder in the UK, that the current recession was the worst he had experienced in nearly 40 years in the industry, did little to change the already subdued mood of the market. Other leading companies to report lower profits included BAT Industries, Blue Circle and, finally, Sun Alliance, the insurance leader, which suffered a heavy setback in late trading.

Traders again stressed the thin level of turnover in equities which, it is feared, leaves the market vulnerable to any sudden change in sentiment. "The FT-SE is exposed to the risk of short term weakness within its rally to 2,200," commented Mr Robin Aspinall at Hoare Govett, adding that Footsie 1,900 could yet prove the crucial testing area.

With crude oil prices firm as the markets digested the latest developments in the Gulf situation, oil stocks edged higher at first, only to be undermined at the end of the day by uncertainty over the outlook for other global markets following the latest comments from the Iraq President.

Account Dealing Dates

First Dealings:	Aug 20	Sep 10	Sep 24
Option Declarations:	Sep 6	Sep 20	Oct 4
Last Dealings:	Sep 7	Sep 21	Oct 5
Account Day:	Sep 17	Oct 1	Oct 15

*New-time dealings may take place from 9.30 am two business days earlier.

FINANCIAL TIMES STOCK INDICES

	Sept 5	Sept 4	Sept 3	Aug 31	Aug 30	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	78.67	78.40	78.49	78.33	78.13	86.02	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	86.42	86.23	86.39	86.39	86.52	97.07	92.91 (8/1)	83.60 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1672.2	1670.9	1667.4	1693.6	1687.9	1978.7	1968.3 (3/1)	1604.2 (23/8)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	192.3	196.3	198.2	197.3	194.0	201.2	378.5 (9/2)	157.9 (15/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2152.2	2148.0	2168.6	2162.8	2153.8	2390.8	2463.7 (3/1)	2075.0 (23/8)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.66	5.67	5.61	5.59	5.61	4.00				
Earning Yld % (full)	12.09	12.08	11.95	11.90	11.95	9.56				
P/E Ratio (Net)(*)	10.03	10.05	10.15	10.20	10.16	12.62				
SEAQ Bargns 4.45pm	17,014	16,206	15,327	18,992	18,217	27,868				
Equity Turnover(£m)†	-	510.22	433.65	623.86	582.80	1030.76				
Equity Bargains†	-	18,639	15,458	18,428	17,528	30,118				
Shares Traded (ml)†	-	257.7	197.8	304.4	301.3	426.8				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. * Nil 5.53

Ordinary Share Index, Hourly changes — Day's High 1682.3 — Day's Low 1668.8

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1667.0	1674.4	1676.5	1681.9	1681.1	1680.6	1678.5	1678.8	1678.9

FT-SE, Hourly changes — Day's High 2165.4 — Day's Low 2146.9

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2148.8	2155.3	2158.1	2163.3	2162.9	2162.5	2158.2	2158.8	2158.0

GILT EDGED ACTIVITY

Indices*	Sept 4	Sept 3
Gilt Edged Bargains	78.9	73.2
5-Day average	72.3	71.8

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001.

Heavy fall in Wimpey

The market was stunned by the extent of the deterioration in interim figures from George Wimpey, the building, contracting and property group which is the UK's second-largest housebuilder. The results, pre-tax profits for the six months down 72 per cent from £45.2m to £12.6m, were below even the most pessimistic forecasts. These had ranged from around £28m to £35m.

Even an initial mark down of the Wimpey share price from an overnight 202p to 181p failed to stem a flurry of selling orders into the market. The stock dropped further to touch a year's low of 171p, before some support triggered a minor rally to leave the shares a net 28 off at 174p. Turnover reached 1.5m shares.

Analysts were said to be cutting their full-year Wimpey numbers with a figure of £50m being mentioned by some. There was also a concern among some researchers that the company might have to dip into reserves to pay the full-year dividend.

One specialist said there was little support for the shares short term, particularly because the 30 per cent stake held by the Grove Charity Trust would prove an effective block to any potential bidder for the company.

Reuters news

The market gave the benefit of the doubt to Reuters by pushing the shares higher on the back of news of a joint venture and in spite of analysts' confessions that they had little idea how much it would be worth to the company.

The American Stock Exchange and Reuters have signed a letter of intent to develop and operate an electronic marketplace for the trading of private placement securities.

"Nobody knows the exact size of the market available in this system," said Mr David Forster at Kleinwort Benson. "But it is a good piece of news as opposed to a bad piece of news," he said, referring to doubts surrounding the extension of testing announced recently of one of the company's most important trading products. He added that the private placement market product used existing technology and therefore would not be expensive to develop.

Reuters was 30 better at one point but drifted lower with the market to end a net 11 higher on the day at 864p.

Turnover was a steady 806,000 shares.

Setback at Williams

Williams Holdings went into reverse as analysts turned ultra-cautious after evaluating the group's interim statement yesterday. The end of eight years of increasing profitability had been expected but the setback was more than the market had bargained for. Pre-tax profits came out at £60.5m, some £5m less than expectations, and compared with £71.4m for the same period last year.

With no respite likely in this year's ravaging of the UK consumer demand base and the outlook for the world economy more depressing, the group will be hard pressed, said one researcher. Currency translations will have their full impact on second-half trading (the group now earns more than 50 per cent overseas), thus profit forecasts for the full-year must be lowered, he added.

Among the investment houses to downgrade yesterday were BZW and Robert Fleming. Mr Rory Sweetman of BZW, who moved down to £140m quite recently, reduced further to £130m while Ms Tracey Gardiner of Flemings Research went even lower to £120m, her previous estimate was £160m. Williams shares ended 13 down at 217p.

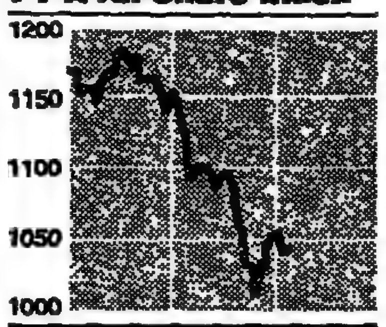
Sun Alliance shock

Interim results described by one dealer as "shockingly bad – right off of the Richter scale," caused a sharp retreat by Sun Alliance shares, which retreated to end the session a net 10 lower at 279p, after being as low as 276p straight after the figures. Turnover in the stock expanded to 3.5m shares.

The composite insurer recorded a half-year loss of a massive £119m, compared with the £191.4m profit achieved in the same period last year. The loss was way in excess of any forecasts, the most bearish of which were in the region of £100m. The market was also dismayed by the level of the interim dividend; up 11 per cent, the market had expected an increase of the order of 17 per cent.

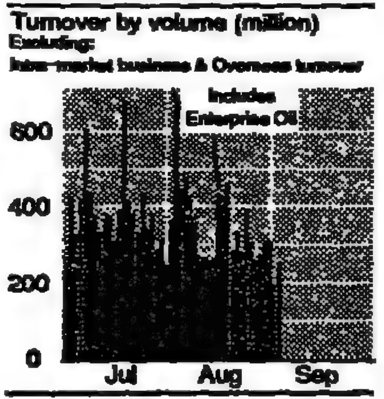
Mr John Marr, insurance analyst at Charterhouse Tilney, chopped his full-year forecast from £43m to £10m and said Sun's figures would add to the degree of increasing disillusionment with the composite insurance sector.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business & Overseas turnover



First half profits at tobacco and financial services group BAT Industries fell 11 per cent to £592m due largely to insurance claims at Eagle Star for storm damage last winter and the weakness of world bourses hurting investment income. Tobacco profits were good, however, the results were in the range of analysts forecasts and the shares ended at 526p.

There was plenty of fizz in the oil and gas areas as crude oil prices continued to respond to the possibility of open conflict in the Middle East. October Brent approached the crucial $30 a barrel mark.

BP edged up to 370p with turnover of 3.6m on the Seaq system masking hectic activity in the traded options where the equivalent of 5.6m shares were traded. BP have been boosted by numerous brokers' buy recommendations, based on the company's high gearing to rising oil prices, as well as stories of a bigoil discovery in the Gulf of Mexico. There have also been hints of drilling success in the North Sea, adjacent to Enterprise Oil's Nelson oil field.

Enterprise were heavily supported in front of today's interim report which is expected to be accompanied by a progress report on Nelson, outlining an increase in the field's reserves. Recent drilling by Total on a block adjacent to Nelson, 22/7, confirmed an extension of Nelson, while Enterprise has already announced more successful drilling on Nelson and analysts estimate that the field could now contain some 400m barrels of oil, compared with previous estimates of 300m barrels. Shell rose 3 to 490p on 4.5m.

British Gas responded to a brokers' upgraded forecast, adding 1½ to 223p on 8.5m shares. Calor rose 9 to 229p amid vague suspicions that SHV could have been adding to its 44 per cent stake.

Discount houses improved across the board on hopes of an early cut in UK interest rates. Union Discount put on 14 to 557p, Gerrard & National 6 to 279p and Cater Allen 5 to 342p.

Kleinwort Benson were 9 higher at 332p with the merchant bank thought to have been in the market buying in more stock.

Guardian Royal Exchange rallied 6 to 192p on turnover of 3.5m with speculators buying the stock on hopes that the recent poor figures could well trigger an overseas takeover bid.

Two buy recommendations revitalised Laporte and the shares, which have gone through a lean spell recently, rose 11 to 474p. Shearson Lehman maintained the shares were oversold. "High value added products reduce the impact of higher oil prices and the lower volumes reduce transport costs," continued Shearson. BZW said the company's growth rates remain attractive by sector standards and reflect the group's broad spread of interests and exposure to many relatively non-cyclical sectors.

Increased half-yearly profits were a tonic for Croda International, which advanced 8 to 158p. More fizz was added by the board's cautiously optimistic view of prospects and the statement that an increase in total dividend would be considered when results for the full year are known. The interim payment was maintained at last year's level.

Caird traded nervously awaiting the outcome of the meetings with domestic and US institutional investors. Analysts deferred their profits projections, giving no help to investors who, according to a marketmaker, were experiencing severe difficulty in assessing the situation.

A leading investment bank thought the shock of Tuesday's results was now in the share price but admitted that rebuilding of the stock's rating would be a long track. Volume was slightly less than Tuesday's 900,000 shares but the price still dipped to 63p before settling 14 lower on balance at 70p.

British Aerospace had a good day on the back of a Hoare Govett presentation at the Farnborough Air Show.

Hoare said clients had been impressed by the prospect of a "major improvement in profitability." News that Airbus Industries, in which BAe has a 20 per cent stake, would show a profit two years before expected, and belief that the civil side of the industry was expected to move forward rapidly, were supporting contributory factors.

A total of 1.3m shares were traded and the price peaked at 551p before subsiding with the market to close 6 up on the day at 540p.

The dreadful figures released by Wimpey coupled with the latest report on house prices, issued by the Halifax Building Society, left the housebuilding sector immersed in gloom. The Halifax said UK house prices slipped again during August, falling 0.4 per cent and leaving the year on year figure down 1.8 per cent.

There was widespread selling of all the housebuilders but most rallied to close well above the day's lowest levels. Tarmac, the UK's largest housebuilder and due to announce interims on the 25th of this month, dropped to 218p before settling a net 5 off at 221p. Taylor Woodrow, another of the UK's big volume housebuilders, reporting on September 18, fell to 219p but later closed 3 cheaper at 226p. Barratt Developments, scheduled to reveal finals on September 19, dropped 10 to 140p.

Blue Circle provided one of the sector's few good performances, the shares adding 5 at 205p on 4.4m, despite the chairman's cautious review of second half prospects. The group produced highly satisfactory interim profits of £93m, down on a comparable £100.3m but comfortably above most analysts' estimates. Nomura's Graham Foster, telling clients to "buy on a twelve months view," expects the group to achieve between £195m and £200m in the full year.

Hillsdown recovered well from weakness on Tuesday in anticipation of yesterday's interims. Mr Carl Short at Kleinwort Benson said the 22 per cent rise in profits to £82.6m was good and that the accompanying statement – which some in the market had feared would deliver bad news – made "all the right noises." The shares rose 4 to 252p.

Further consideration of the decision by the French Government to block only part of Aegis's media buying activities in France, left the shares another 10 better at 229p. Analysts had feared that restrictions, on monopolies grounds, might have been broader.

Select Appointments, the USM-quoted recruitment company which last month announced profits for the year down from £5.8m to £169,000, saw its shares fall almost three-quarters to 8p at one point before closing at 13p, down 15 on the day. Traders said that there had been attempts to sell a line of almost 500,000 shares since late last week. The seller disposed of about 300,000 at just above 20p earlier in the week and sold the rump over Tuesday night at 5p a share.

A block of 2m United Newspapers appeared on the Seaq ticker as the market closed. Traders said they thought it represented the first half of a bed and breakfast deal. The shares closed 4 up at 317p.

The overnight ticker showed a 2.7m share trade in Trusthouse Forte. Traders said this had come into the market and was responsible for the stock's weakness during the day. THF was left 2 easier at 248p, with little more than half the block disposed of by the close.

■ Other Market statistics, including the FT-Actuaries share index, Page 22

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (11).

BRITISH FUNDS (4) BREWERS (1) INDUSTRIALS (2) Great Southern, Takare, TRUSTS (2) OILS (2).

NEW LOWS (128).

CANADIANS (3) BANKS (2) BREWERS (1) BUILDINGS (11) CHEMICALS (5) STORES (6) ELECTRICALS (13) ENGINEERING (9) FOODS (2) HOTELS (1) INDUSTRIALS (31) Arley, Assoc. Farmers, Avon Rubber, BTR Nylex, Barry Wehmiller, British Bloodstock, Brooke Service, Christies Intl., Co. of Designers, Dobson Park, Fenner, Hughes (HT), NMW Computers, Nestor-BNA, Norfolk House, Office & Elect., Porth, Select Appointments, Somic, Stat-Plus, Southern Business, Stormgard, Syltone, Third Mile Inv., Utd. Uniform Services, Whittington, Williams (J), Do. 8p Cv. Pf., Do. 5½pc Cv. Pf., Worcester, Yale & Valor, INSURANCE (2) LEISURE (10) MOTORS (3) NEWSPAPERS (2) PAPERS (6) PROPERTY (12) TEXTILES (1) TRANSPORT (1) TRUSTS (13) OILS (2) OVERSEAS TRADERS (3) MINES (2).

TRADING VOLUME IN MAJOR STOCKS

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]				[illegible]				[illegible]				[illegible]			
BP	3,800	370	+1	Inchcape	114	236	-1	Rothmans	93	705	+5	Utd. Newspapers	2,100	317	+4
British Steel	1,300?	125	-1	Kingfisher	1,500	330	-3	Ryl Bk Scotland	457	150	+3	Water Package Uts.	0	£193	+3
British Telecom	3,400	264	+2	Ladbroke	3,000	277	-4	Royal Insurance	1,400	418	-5	Wellcome	694	476	+11
Bunzl	12,000	74		Land Securities	670	489	+4	STC	1,300	254	+3	Welsh Water	116	226	-1
Burmah Castrol	684	515	+4	Laporte	930?	474	+11	Saatchi	706	64	-1½	Wessex Water	0	212	
Burton	276	59	+1½	Legal & General	972	379	+1	Sainsbury	462	298		Whitbread "A"	208	424	-1
Cable & Wire.	1,200	453	-1	Lloyds Abbey	1,300	320	+4	Scottish & New.	430	334	-2	Wiggins Teape	2,800	167	-2
Cadburys	2,100	325	-5	Lloyds Bank	1,200	278	+6	Sears	3,400	88		Williams Hldgs.	2,000	217	-13
Calor Group	393	229	+9	LASMO	2,100	502		Sedgwick	1,300	185	+7	Willis Faber	421	227	+2
Carlton Comms.	1,300?	341	+6	Lonrho	302	243		Severn Trent Water	395	208		Wimpey	1,600	175	-27
Coats Viyella	13,000	95		Lucas	2,700	134	+2	Shell Transport	4,500	490	+3	Yorkshire Water	12	232	
Comm. Union	709	465	+5	MB Group	108	184	+3	Siebe	134	359	-1				
Cookson	2,200	129	-1	MEPC	630	464	+3	Slough Ests	165	238	+2				

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

APPOINTMENTS

New chief at Champion Spark Plug

■ THE CHAMPION SPARK PLUG CO, the worldwide manufacturer of spark plugs and a division of Cooper Industries Inc., has appointed Mr John Sharpley *(pictured)* as managing director, Europe. All of Champion's operating entities in Europe will report to Mr Sharpley, who will also be responsible for Champion's licenses in Africa and joint venture in India.

■ GATEWAY FOODMARKETS has appointed Mr Geoff Cooper to the main board as corporate finance director from September 10. He is currently a director of Spicers Consulting Group.

■ Mr Derek Marsh of the Department of Trade and Industry has become a non-executive director of the PORT OF FELIXSTOWE, a subsidiary of the P&O Group.

■ GEEVOR, the mining company, has appointed Mr Frederick Crack a director. He is a chartered engineer and a registered engineer in North America with 12 years experience in coal mining in the UK and the US. He joined Geevor in 1987, is president of the company's US subsidiary and has executive responsibility for its Mainband Colliery in Cumbria.

■ Mr Philip D. Marshall has been appointed to the board of MARSHALLS, the building products group. He remains chairman of Marshalls' Halifax division and continues to be responsible for the group's national production of concrete block paving.

■ CYANAMID has made the following changes. Mr David Lilley, managing director of Cyanamid (UK) since 1988, becomes vice president, Lederle division. His successor is his current deputy, Mr Jeff Ashpitz.

■ At THAMES TELEVISION Mr Jonathan Shier has been appointed deputy chief executive. He remains director of sales and marketing. As deputy chief executive, he will take special responsibility for group marketing and for the group's investments in commercial radio, broadcast services to third parties, and network television in Australia.

■ Mr John Broadbent *(pictured)* has been appointed managing director of the MARLEY ROOF TILE COMPANY. He was managing director of Marley Waterproofing from 1984.

■ Following the retirement of Mr Malcolm Shearer as managing director of BRITISH ALCAN ROLLED PRODUCTS, Mr David Edwards has been appointed his successor. He joins from British Steel where he has been general manager, operations of the 4,500-strong tinplate division.

■ The following senior management changes have been made at ASLK-CGER BANK, London branch. Mr Thomas C. Weston has been promoted to general manager and Mr Paul C. Harding to deputy general manager.

New assistant general managers are Mr Frank Van Gansbeke and Mr Glyn P. Sloman (treasury and capital markets).

■ Mr Richard Pearson has been appointed chairman of PANNELL KERR FORSTER. He is based in the Home Counties and has been a member of the firm's national board and management committee since 1971.

■ Mr Neil MacLachlan has been appointed a deputy managing director, merchant banking, at SVENSKA INTERNATIONAL, the UK subsidiary of Svenska Handelsbanken. He was previously a director and head of corporate finance at James Capel.

The UK activities are to be organised into four major units:

Trading: under Mr Leif Hedberg, deputy chief executive officer of Svenska Handelsbanken U.K. and head of the branch.

Merchant banking: under Mr Neil MacLachlan, deputy managing director of Svenska International.

Banking: under Mr Michael Turner, deputy managing director of Svenska International.

Financial control and operational support: under Mr Christopher Weller, deputy managing director of Svenska International.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
[illegible]						
107	99¾	Treas 13¾pc 1993‡‡	104½	+¼	13.18	
91	84¾	Treas. 8½pc 1994	90	+¼	9.43	
111¼	102	Treas 14½pc 1994‡‡	107¼	+¼	13.51	
107¼	99¼	Exch 13½pc 1994	104	+¼	12.98	
96	88	Treas. 10pc Ln. 1994‡‡	94¼	+¼	10.59	
104½	96	Exch. 12¼pc 1994	101½	+¼	12.32	
92½	85	Treas 9pc 1994‡‡	90½	+¼	9.93	
103	94	Treas 12pc 1995	100¼	+¼	11.98	
81	73	Exch 3pc Gas 90–95	79		3.80	
96	88	Exch. 10¼pc 1995	94	+¼	10.90	

Five to Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
108	97	Treas 12¾pc 1995‡‡	103⅝	+¼	12.30	
112	101½	Treas. 14pc '96	106	+¼	13.10	
92½	82	Treas. 9pc 1992–96‡‡	88	+¼	10.16	
119	107	Treas 15¼pc 1996‡‡	112	+¼	13.58	
110	99	Exch 13¼pc 1996‡‡	104	+¼	12.67	
96	85½	Conversion 10pc 1996	91¼	+¼	10.96	
112	98	Treas 13¼pc 1997‡‡	104	+¼	12.65	
99¼	87	Exch 10½pc 1997	93¼	+¼	11.26	
91	79	Treas 8¾pc 1997‡‡	85	+¼	10.29	
121	106½	Exch 15pc 1997	112¾		13.32	
95	83½	Exch. 9¾pc 1998	89		10.96	
81	70	Treas 6¾pc 1995–98‡‡	75	+¼	8.89	
126	110¼	Treas. 15½pc '98‡‡	116	+¼	13.28	
107	93¼	Exch. 12pc 1998	99	+¼	12.08	
95½	82	Treas 9½pc 1999‡‡	87	+¼	10.85	
109	94	Exch. 12¼pc 1999	100	+¼	12.16	
99	85	Treas. 10½pc 1999	91	+¼	11.42	
98	84	Conversion 10¼pc 1999	90	+¼	11.38	
89	75	Treas. 8½pc Ln 2000‡‡	82	+¼	10.35	
92½	78	Conversion 9pc 2000‡‡	84½	+¼	10.65	
114	98	Treas. 13pc 2000	104		12.41	
97	82	Treas 10pc 2001	88		11.28	
98	85	Treas. 10pc 2001 "A"	90		10.96	
117	102½	Treas. 14pc '98–01	108		12.96	
96	81	Treas 9¾pc 2002	86	+¼	11.21	
96	84½	Treas 9¾pc 2002 "B"	88		10.85	
91	76	Exch. 9pc 2002	81	+¼	10.98	
119	102	Treas. 13¾pc 2000–03	108	+¼	12.66	
99	82	Treas 10pc 2003	89	+¼	11.22	
106½	90	Treas. 11½pc 2001–04	96	+¼	11.93	
99	83	Treas. 10pc 2004	89	+¼	11.23	
56½	45	Funding 3½pc '99–04	50	+¼	6.97	
96	79	Conversion 9½pc 2004	85	+¼	11.07	
96	79	Conversion 9½pc 2005	85	+¼	11.06	

Over Fifteen Years

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
104½	86	Exch. 10½pc 2005	92	+¼	11.31	
117¼	98	Treas. 12½pc 2003–05	105	+¼	11.90	
84	69	Treas. 8pc 2002–06‡‡	75	+¼	10.64	
111	93	Treas. 11¾pc 2003–07	100	+¼	11.73	
89	73	Treas 8½pc 2007‡‡	79	+¼	10.72	
125	105	Treas. 13½pc '04–08	112	+¼	12.01	
94	77	Treas. 9pc 2008‡‡	83	+¼	10.79	
85	69	Treas 8pc 2009	75	+¼	10.60	
94	77¼	Conv 9pc Ln 2011‡‡	83	+¼	10.83	
63	50	Treas. 5½pc 2008–12‡‡	55	+¼	9.93	
83	67	Treas. 7¾pc 2012–15‡‡	72	+¼	10.66	
122¼	100	Exch. 12pc '13–'17	107	+¼	11.16	

Undated

1990 High	1990 Low	Stock	Price £	+ or -	Yield Int.	Yield Red.
41	33	Consols 4pc	35	+¼	11.19	
36	29	War Loan 3½pc‡‡	31	+¼	11.02	
61	55	Conv. 3½pc '61 Aft.	56	+¼	6.15	
32	26	Treas. 3pc '66 Aft.	27	+¼	10.98	
25	20	Consols 2½pc	22	+¼	11.02	
25½	20	Treas. 2½pc	22½	+¼	11.11	

BRITISH FUNDS—Contd

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

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LONDON SHARE SERVICE

BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
303	189	ANZ SA1	193	.....	44c	1.4	9.8	7.2
229	172	Abbey National 10p	210	+3	5.7	4.3	3.6	8.5
*274	144	Allied Irish Ord	159	.....	Q40%	3.3	5.6	7.2
£13½	£9½	Algemene Fl.10	£10½	-⅛	Q28%	2.1	8.0	5.9
85	55	Anglo Irish	58	.....	†Q18.7%	2.7	7.2	8.3
93	68	Ansbacher (H.) 1p	72	.....	2.5	1.3	4.6	20.7
£71½	£41½	Bancaire Cie Fr100	£42½	.....	Q12½%	–	3.0	–
£22½	£15¼	Banco Bilbao Viz	£16¼	.....	Q49.1%	2.7	4.8	11.4
286	159	Bank Ireland IrE1	164	.....	Q14.7%	2.9	8.0	5.8
£19½	£18	Bank Leumi	£19½	.....	–	–	–	–
350	320	Bank Leumi (U.K.)	350	.....	†15.0	–	5.7	–
125	104	Bank Scotland	110	+3½	4.55	3.3	5.5	7.3
100½	83½	Do. 9¼pc Irrd Pf	95	-½	9¼%	–	13.0	–
54	39	Bank of Wales	44	.....	2.8	0.8	8.5	(21.1)
428	332	Barclays £1	352	-2	†Q29.57	3.5	7.4	4.9
22	12	Benchmark 20p	13	.....	1.63	1.0	16.7	7.5
335	283	Brown Shipley £1	285	.....	12.0	2.2	5.6	9.2
*435	335	Cater Allen £1	342	+5	N24.5	–	9.6	–
170	77	Chancery	77	.....	9.0	2.7	15.6	3.1
£23½	£16½	Commerzbk DM10	£17½	-⅛	Q18%	–	3.5	–
£13¼	675	Dai Ichi KBk Y50	708	-7	Q17%	♦	0.4	♦
*£313½	£216½	Deutsche Bk DM50	£224½	-3⅞	Q28%	–	2.1	–
£20½	£15½	Espirito Santo	£16	-⅛	Q75c	5.1	2.5	7.8
253	174	First Nat. Fin. 10p	185	+2	13.0	2.1	9.4	6.4
121	88	FNFC 6.3pc Cv. Pf	90	-1	6.3%	–	9.3	–
£13½	800	Fuji Bank Y50	848	+6	Q17%	♦	0.4	♦
325	262	Gerrard & National	279	+6	19.0	–	9.1	–
154	113	Guinness Mahon 10p	114	.....	2.1	–	2.5	–
328	194	Hambros 20p	217	+2	11.5	–	7.1	–
128	91	Do. 7.5pc Cv Pf	96	.....	7½%	–	10.4	–
53½	34½	HK & Shang. HK$2.50	35½	-½	†Q38c	–	7.3	–
478	413	Joseph (Leo) £1	413	.....	15.85	–	5.1	–
150	121	King & Shaxson 20p	123	.....	10.25	–	11.1	–
422	320	Kleinwort Benson Grp	332xd	+9	16.0	2.5	6.4	7.9
642	339	Kyowa Bank Y50	370	+3	Q14%	♦	0.8	♦
316	242	Lloyds £1	276	+6	†13.3	2.6	6.4	6.5
56	44	Lon. Scot. Bank 10p	49	.....	†2.4	1.9	6.5	9.7
404	230	Midland £1	252	.....	†18.0	2.6	9.5	5.2
£14½	£10½	Mitsubishi Bank Y50	£10½	.....	Q17%	♦	0.3	♦
£12½	£4⅞	Mitsubishi Tst & Bk Y50	£5¼	-⅛	Q17%	♦	0.6	♦
£10⅝	£5½	Mitsui Taiyo Kobe Y50	£5⅞	-⅛	†Q16%	6.0	0.5	34.4
904	447	Mitsui Tst & Bk Y50	467	+4	Q17%	♦	0.7	♦
326	272	Nat Aust. Bk. A$1	281	-1	sQ50c	1.6	7.6	8.1
368	271	NatWest £1	284	-1	†16.7	3.3	7.8	5.2
£210	£165	Ottoman Bank	£170	.....	Q110%	2.8	6.5	5.5
55	38	Rea Bros. Group	38	.....	0.5	3.2	1.8	18.9
227	143	Royal Bk. Scotland	150	+3	†7.2	3.8	6.4	5.3
795	368	Saitama Bank Y50	393	-6	Q14%	♦	0.7	♦
£12¼	612	Sanwa Bank Y50	645	-7	Q17%	♦	0.5	♦
902½	702	Schroders £1	713	+5	h12.5	5.9	2.3	9.6
712½	503	Do. £1 N/V	513	+5	h12.5	5.9	3.2	6.9
£25¼	£13½	Sec. Pacific $10	£14½	-⅛	Q$2.52	–	9.4	–
616	352	Standard Chartd. £1	381xd	+7	35.0	1.4	12.2	(7.1)
£16¼	£6⅞	Sumitomo Bank Y50	£6⅞	-⅛	†Q16%	7.5	0.4	31.0
£11	£4½	Sumitomo Tst & Bk Y50	£5¼	-⅛	Q17%	♦	0.6	♦
147	120	TSB	130	+1	†5.8	2.5	5.9	8.4
175	126	TSB Bank Ch'nel Is'l	132	.....	†Q6.7	3.5	5.1	6.6
£11½	£5½	Tokai Bank Y50	£5⅞	.....	Q16%	4.1	0.7	45.1
920	531	Toyo Tst & Bk Y50	576	.....	†Q15.2%	6.9	0.5	27.7
611	530	Union Discount £1	557	+14	33.0	–	7.9	–
525	346	Warburg (S.G.)	371	+5	15.0	3.8	5.4	6.5
180	122	Do 6pc Cnv Prf	125	.....	6%	–	6.4	–
279	193	Westpac $A1	201	.....	Q52.5c	1.5	11.7	5.6
420	348	Wintrust 20p	355	+7	†7.8	4.2	2.9	9.8
969	574	Yasuda Tst & Bk. Y50	610	-1	Q17%	♦	0.5	♦

Hire Purchase, Leasing, etc.

1990 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
179	45	CLF Yeoman 50p	50	.....	Q18.5%	3.2	18.9	2.2
71	53	Cambridge Grp Ir50p	53	.....	Q7½%	15.6	0.6	12.9
55	13	Capital Leasing Ir 10p	13	-10	†Q1.2%	3.5	8.1	3.2
68	50	Cattle's (Hldgs) 10p	62	.....	†3.58	1.9	7.9	8.7
436	363	Prov. Financial	370	+6	†20.5	2.1	7.6	8.4
*232	160	Reflex Invs. Ir50p	168	.....	gQ51%	7.9	1.4	11.8
225	199	Secure Trust Grp. 1p	218	.....	8.5	2.4	5.2	10.8
210	135	Woodchester IR20p	145	+2	Q16.7%	5.9	2.1	10.8

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

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LONDON SHARE SERVICE

MOTORS, AIRCRAFT TRADES – Contd

Components

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
458	420	Abbey Panels	453	.....	3.5	10.8	1.0	12.0
225	170	Airflow Streamlines	173	.....	6.0	3.9	4.6	7.4
190	145	Bostrom 5p	178	–5	5.75	3.1	4.5	7.7
266	188	Dowty 50p	195	.....	9.0	2.1	6.2	9.4
239	132	FR Group	143	.....	6.37	3.2	5.9	6.8
135	55	Kwik-Fit Hldgs. 10p	64	.....	2.4	1.7	5.0	16.1
174	121	Lucas Inds.	134	+2	16.25	3.0	6.2	6.1
44	18½	Do. Warrants	20	–1	–	–	–	–

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST – Contd

INVESTMENT TRUST – Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES – Contd

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –
Craig & Rose £1	800	.....
Finlay Pkg. 5p	51	.....
Holt (Jos) 25p	1310	+5

IRISH

Stock	Price	+ or –
Cap 8½% Ln. 1991	£98	.....
9pc Cap Ln. 1996	£91½	.....
Fin. 13% 97/02	£109	.....
Arnotts	160	.....
Carroll (P.J.)	185	.....
Hall (R. & H.)	165	.....
Heiton Hldgs.	52xd	–1
IRG	195	.....
United Drug	143	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	7
Astec (BSR)	6
BAT	62
BOC Grp	48
BTR	37
Barclays	54
Blue Circle	21
Boots	24
Bowaters	40
Brit Aerospace	47
British Steel	13
Brit. Telecom	25
Cadburys	30
Charter Cons.	42
Comm Union	41
Courtaulds	29
Eurotunnel	55
FKI	7
FNFC	20
Gen Accident	46½
GEC	18
Glaxo	68
Grand Met.	53
Guardian	26
GKN	33
Hanson	20
Hawker Sidd.	53
ICI	99
Ladbroke	27
Legal & Gen.	34
Lex Service	28
Lloyds Bank	25
Lucas Inds.	13
Marks & Spencer	19
Midland Bk	24
Nat West Bk	30
P & O Dfd.	52
Polly Peck	39
Racal Elect.	19
RHM	38
Rank Org Ord.	78
Reed Intnl.	38
STC	21
Sears	9
SmKl. Beecham A	48
TI	39
TSB	11
Tesco	19
Thorn EMI	62
Trust Houses	24
T&N	18
Unilever	58
Vickers	19
Wellcome	57

Property	
Brit Land	32
Control Secs.	4
Land Securities	45
MEPC	45
Mountleigh	13

Oils	
Aviva Petlm.	5
Brit Petroleum	28
Burmah Castrol	55
Conroy Petlm.	10
Gaelic Res.	3½
Premier	9
Shell	40
Tuskar Res.	5½
Ultramar	31

Mines	
Lonrho	21
RTZ	50

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

[illegible]

Matheson Unit Trust Managers Ltd (1200)H
Admin. 5 Rayleigh Rd, Hutton, Brentwood, Essex
Enquiries: 0277 227300 Dealing: 0277 261010

SE Asia	6	45.26	45.26	48.41	-0.70	2.36
UK Growth (4-1)	4	60.46	60.46	64.66	+0.32	3.82
UK High Income	6	33.26	33.26	35.57	+0.06	5.68

Mayflower Management Co Ltd (1200)F
PO Box 249, Beckenham, Kent BR3 4WA 081-663 3111

Income	5	304.1	304.1xd	323.5	+0.6	5.69
Global Inc	5	42.62	42.62xd	45.34	-0.29	5.46
Brit Leaders	5	238.0	238.7xd	253.2	+0.4	4.45
Intl Leaders	5	128.2	128.2xd	136.3	-0.8	3.15

Medical Investments Ltd (1100)F
1 White Hart Yard, London SE1 1NX 071-407 5966

Health Fund	5½	47.86	47.86	52.22	+0.55	.32

National Provident Inv Mgrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

NPI American Acc ♥	5	60.65	60.67	64.54	-0.27	1.68
NPI American Dist ♥	5	57.06	57.08	60.72	-0.26	1.68
NPI European Acc	5	69.34	69.42	73.85	-0.39	0.23
NPI European Dist	5	68.17	68.35	72.71	-0.39	0.23
NPI Far East Acc ♥	5	96.39	96.89	103.07	-1.43	0.48
NPI Far East Dist ♥	5	95.71	96.21xd	102.35	-1.45	0.48
NPI O'seas Acc	5	801.6	804.5	855.9	-6.20	1.39
NPI O'seas Dist	5	627.6	629.9xd	670.1	-4.90	1.39
NPI UK Acc	5	430.6	435.4	463.2	+2.20	4.21
NPI UK Dist	5	243.2	246.0	261.7	+1.20	4.21
NPI W'wide Acc	5	67.15	67.77	72.10	-0.49	0.22
NPI W'wide Dist	5	64.73	65.33	69.50	-0.48	0.22

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours, ♣ - 1401 to 1700 hours, ♠ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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Target Trust Mngrs Ltd (1600)F

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Clerical Medical/Fidelity International — Contd.

Family Assurance Society

Hill Samuel Life Assur. Ltd

Lifetime Assurance Co Ltd

Merchant Investors Assurance Co Ltd — Contd.

INSURANCES

OTHER UK UNIT TRUSTS

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Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

	Bid Price	Offer Price	+ or −	Yield Gross
NUAM Funds				
Managed Fund	61.9	65.2	+0.1	−
Stock Market Mngd Fund	59.0	62.1	−0.1	−
Equity Fund	66.6	70.2	+0.3	−
International Fund	51.9	54.7	−0.5	−
European Fund	64.4	67.8	−0.5	−
North American Fund	51.1	53.8	−0.4	−
Pacific Fund	54.9	57.8	−1.0	−
Property Fund	87.0	91.6	—	−
Fixed Interest Fund	51.3	54.0	+0.3	−
Index linked Sec Fund	57.4	60.4	+0.1	−
Deposit Fund	64.8	68.3	—	−
NUAM Retirement Plans				
Mixed Fund	67.1	70.6	—	−
UK Ordinary Share Fd	76.7	80.8	+0.3	−
International Fund	56.4	59.4	−0.6	−
Property Fund	85.1	89.6	—	−
Fixed Interest Fund	60.8	64.0	+0.3	−
Index Linked Sec Fund	60.6	63.7	+0.1	−
Deposit Fund	74.8	78.7	—	−
NUAM (MF)				
Managed Fund	875.2	921.3	+0.1	−
Equity Fund	1832.5	1929.0	+7.0	−
International Fund	137.1	144.4	−1.3	−
Property Fund	550.5	579.5	+0.1	−
Fixed Interest Fund	384.0	404.3	+1.6	−
Index Linked Sec Fund	58.4	61.5	+0.1	−
Deposit Fund	266.5	280.6	+0.1	−

Norwich Union Life Insurance Soc.
Surrey Street, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	+ or −	Yield Gross
Unitised Life				
With Profits Fd	104.20	109.69	+0.03	−
Managed Fd	84.24	88.68	−0.05	−
UK Ord Share Fd	87.39	91.99	+0.27	−
International Fd	76.90	80.95	−0.73	−
European Fd	89.35	94.05	−0.66	−
North American Fd	77.92	82.02	−0.62	−
Pacific Fd	69.50	73.16	−1.25	−
Property Fd	99.90	105.16	+0.01	−
Fixed Int Fd	92.53	97.40	+0.27	−

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price
Individual Pension Funds	
UK Equity Acc	210
UK Fixed Interest Acc	188
Intl Equities Acc	212
UK Managed Acc	170
Property Acc	208
Money Acc	146
Special Market Acc	224
Japan Equity Acc	150
North American Acc	107
Pacific Acc	160
Technology Acc	143
Natural Resources Acc	103
European Acc	116
Residential Prop Acc	105
Swiss Equities Acc	39.4
Hong Kong Acc	47.2
UK High Inc Eqy Acc	67.9
Int Fixed Interest Acc	52.2
Int Managed Acc	54.1
Group Pension Funds	
Equity Acc	730
Fixed Interest Acc	554
Managed Acc	120

Provident Life Assoc Ltd
Provident Way, Basingstoke

	Bid Price
Unit Fund (Mixed)	986
Equity Fund	226
International Fd	130
Fixed Interest Fd	[illegible]
Property Fund	227
Index-Linked Fund	145
Deposit Fund	153
Pens. Mixed (Ord) Fd	239
Gold Pensions	
Discretionary Fund	
Equity Fund	
Fixed Interest Fund	
International Fund	
Property Fund	

Sun Alliance International Life
PO Box 77, New St, St Peter Port, Guernsey 0481 714108

	Bid Price	Offer Price	+ or −	Yield Gross
North American Equity $	$8.26	8.69	—	−
Pacific Equity $	$7.28	7.84	—	−
Intl Currency $	$4.32	4.65	—	−
Intl Bond Fund $	$6.72	7.23	—	−
Gilt Fund £	£3.81	4.11	—	−
US Dollar Mngd Fd $	$1.65	1.77	—	−
Stg Managed Fd £	£1.03	1.11	—	−

Target International Group
1 rue Emile Bian, Luxembourg Tlx 2809 Tel 4050751

	Bid Price	Offer Price	+ or −	Yield Gross
Sterling Pens Plan	£0.75	0.81	+0.02	−
US Dollar Pens Plan	$0.72	0.78	−0.04	−
Yen Pens Plan	Y268	286	+3	−
Ecu Pens Plan	Ecu0.66	0.72	+0.01	−
Sterling Man Fd	£1.08	1.15	+0.06	−
Sterling Fixed Int Fd	£1.49	1.57	—	−
US Dollar Man Fd	$1.24	1.32	+0.03	−
US Dollar Fixed Int Fd	$1.38	1.46	—	−
Ecu Bond Fd	Ecu1.08	1.15	—	−
Davenport Cheswick £ Fd	£0.78	0.84	+0.02	−
Davenport Cheswick $ Fd	$0.67	0.73	+0.01	−
Davenport Chad £ F.I.	£1.06	1.15	—	−
LWI Universal Stg Mgd	£0.76	0.79	+0.02	−

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 B6XF. 01-836 4321

	Bid Price	Offer Price	+ or −	Yield Gross
Target Mngd Bond	188.4	198.4	−0.3	−
Target Mngd Pension	116.2	122.4	−0.1	−
Albany Life Acc	172.4	181.5	−0.4	−
Albany Pens Acc	214.9	226.2	−0.7	−

OFFSHORE AND OVERSEAS

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

OFFSHORE INSURANCES

GUERNSEY (REGULATED)

FT MANAGED FUNDS SERVICE

● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 071-925-2128

	Bid Price	Offer Price	+ or -	Yield Gross
Austro-Hungary Fund Ltd				
Lloyds Bank Fund Managers (Guernsey) Ltd				
NAV Aug 30		$9.15		–
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dllr)	$10.41	11.07		–
Mngd Portfolio (Stlg)	£4.02	4.32		–
Baring Currency Fund Ltd				
US Dollar		$14.38		–
Sterling		£17.32		–
Deutschemark		DM37.57	+0.01	–
Japanese Yen		Y3,758	+1	–
Managed	$39.23	41.19	-0.03	–
Dartrust Management (Guernsey) Ltd				
Dartrust Limited	DKr13.30	13.88	-0.60	–
Dumenil Asset Management (Guernsey) Ltd				
Dumenil Enterprise Fund Ltd				
PCFC Selective Grth Fd	£1.0636	1.1101		–
Fipart-Conseil Fund Mngrs (Guernsey) Ltd				
Hautevitle G & B Fd	SFr7.95	8.05		2.57
John Govett Mngmnt International Ltd				
Govett Int'l Mngd	£0.845	0.913		–
Govett High Inc Gilt	£0.3361	0.3581xd	-0.001	14.52
Govett Far East Inv	$0.984	1.052	-0.001	–
Energy & Resources	$0.732	0.782	+0.003	–
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$9.4410	10.0332		–
Havelet Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.953	10.492xd		10.09
Intl Inv-Intl High Inc	$48.859	51.520xd		5.54

	Bid Price	Offer Price	+ or -	Yield Gross
Sarasin (Isle of Man) Ltd				
Fergus Fd Aug 30		£12.00		–
UK Trend Aug 30		£8.92		–
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£8.25	8.92		–
Fleet Street Inv Fd	£7.39	7.89		–
Offshore Income Fd Ltd	£8.67	9.33		–
Nelson Mngd W/W S/S	£9.615	10.16		–
Tattersall Intl Assets	£7.24	7.57		–
Tyndall International (Isle of Man) Ltd				
H.I. Gilt/Building	96.6			–
(Accum Shares)	154.0	161.8	+0.5	–
Unibank Scandinavian Fund Ltd				
Scandinavia Fd	178.92	190.49		1.0

JERSEY (SIB RECOGNISED)

	Init Charge	Cont. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						
Australian Eq (Inc)	5¼	£0.909	0.909	0.973	-1.03	2.5
Global Income (Inc)	5¼	£0.417	0.417	0.445	-0.01	4.3
Global Resources R	5¼	£0.408	0.411	0.440		1.3
Currency Fund						
Stlg Premium Income R		£10.03		10.04xd	+0.01	13.8

Capital House Fund Mgrs (CI) Ltd (0900)H
PO Box 189, Capital Hse, Bath St, St Helier, Jersey
Tel: 0534 74689 (Dealing) 0534 75639 (Helpline)
Facsimile 0534 79040 Telex 4192136
Capital House International Growth Funds Ltd

JERSEY (REGULATED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Rate trends depress dollar

THE DOLLAR fell yesterday on suggestions that the Federal Reserve will ease its monetary stance to support the depressed US economy. Iraqi President Saddam Hussein's call for a holy war against the US and the overthrow of King Fahd of Saudi Arabia had little impact. There were no fresh factors, but the failure of the dollar to gain from the Gulf crisis made it vulnerable to selling on the economic fears.

These fears may be reinforced tomorrow if US employment trends are weak. The market expects August unemployment to remain at 5.5 per cent and does not foresee any marked recovery in the general level of employment. Forecasts point to a fall of about 33,000 in non-farm payrolls compared with a fall of 219,000 in July.

Expectations of lower US interest rates contrasted with last week's move to increase the Japanese discount rate and with the speculation that the Bundesbank might also increase rates to offset inflationary pressure in Germany.

The trend against the dollar yesterday began in the Far East, where it fell sharply against the Japanese yen, closing at Y142.30 in Tokyo compared with Y143.50 on Tuesday in New York. This took the US currency through technical support at Y142.80, encouraging a further bout of selling. In Europe it was pushed down to the lowest level against the yen so far this year, touching Y141.40, before closing at Y141.65 against Y143.60 previously.

Speculation about lower US interest rates, and the movement into the yen, also weakened the dollar against European currencies. It fell to DM1.5625 from DM1.5835; to SFr1.2980 from SFr1.3170; and to FFr5.2375 from SFr5.3075. On Bank of England figures the dollar's index declined to 63.1 from 63.8.

The Federal Reserve intervened fairly aggressively to add temporary liquidity on the New York money market via overnight system repurchases. The market expected money via the more routine method of customer repurchase agreements, but with Federal funds trading at the high level of 8⅜ per cent - against an assumed target rate of 8 per cent - the Fed's action was not regarded as anything more than a technical operation.

Sterling gained more than 2 cents against the dollar, but was otherwise weaker. The pound was supported in early trading by rumours that the currency will become a full member of the European Monetary System this week-end. Many dealers dismissed this as no more than market speculation however, and after sterling had climbed to peaks of $1.9030 and DM2.9775 it fell back to finish lower against Continental currencies and the yen.

The pound rose 2.15 cents to $1.8985, but fell to DM2.9675 from DM2.9725; to Y269.00 from Y269.50; to SFr2.4650 from SFr2.4725; and to FFr9.9425 from FFr9.9625. Sterling's index climbed 0.2 to 94.7.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Sep.5	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.1679	42.3958	+0.54	+0.09	±1.5608
Danish Krone	7.79845	7.89684	+1.26	+0.81	±1.6453
German D-Mark	2.04446	2.06248	+0.88	+0.43	±1.1762
French Franc	6.85684	6.91270	+0.81	+0.36	±1.3618
Dutch Guilder	2.30358	2.32439	+0.90	+0.45	±1.5272
Irish Punt	0.763159	0.768510	+0.70	+0.25	±1.6689
Italian Lira	1529.70	1537.87	+0.53	+0.08	±1.5162
Spanish Peseta	132.889	129.427	-2.61	-2.61	±4.2705

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Sep.5	Latest	Previous Close
£ Spot	1.8980-1.8990	1.8785-1.8795
1 month	1.13-1.11pm	1.16-1.15pm
3 months	3.12-3.09pm	3.08-3.07pm
12 months	10.3-10.2pm	10.2-10.1pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

POUND SPOT - FORWARD AGAINST THE POUND

Sep 5	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8920 - 1.9005	1.8980 - 1.8990	1.14-1.11cpm	7.11	3.12-3.08pm	6.53
Canada	2.1800 - 2.1920	2.1840 - 2.1850	0.42-0.32cpm	2.03	1.12-0.98pm	1.92
Netherlands	3.33¼ - 3.35¼	3.33¼ - 3.34¼	2-1⅞cpm	6.96	5-4⅞pm	5.91
Belgium	60.85 - 61.30	61.00 - 61.10	37-24cpm	6.00	94-74pm	5.50
Denmark	11.34¼ - 11.39½	11.37¼ - 11.38¼	4½-4oreqm	4.48	12-10pm	3.87
Ireland	1.1035 - 1.1135	1.1055 - 1.1065	0.39-0.34cpm	3.96	1.03-0.90pm	3.49

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

Sep 5	£	$
Mexico	5470.30 - 5475.15	2889.00 - 2890.00
N Zealand	3.0335 - 3.0385	1.6020 - 1.6040
Saudi Ar	7.0850 - 7.0950	3.7500 - 3.7510
Singapore	3.3050 - 3.3315	1.7460 - 1.7480
S Af (Cm)	4.8520 - 4.8645	2.5615 - 2.5635
S Af (Fn)	N/A	N/A
Taiwan	51.60 - 51.70	27.25 - 27.30
U.A.E.	6.9310 - 6.9410	3.6720 - 3.6730

* Selling rate

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

	£	$	DM	Yen	F Fr.	S Fr.
H FL / Lira	0.299 / 0.452	0.568 / 0.858	0.888 / 1.341	80.47 / 121.5	2.974 / 4.491	
C $ / B Fr.	0.458 / 1.638	0.869 / 3.111	1.358 / 4.862	123.1 / 440.6	4.551 / 16.29	

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

ERM talk nerves

RENEWED speculation about early UK membership of the EMS exchange rate mechanism was the main subject of discussion in London yesterday. If sterling joins the ERM and remains firm this could bring a cut in bank base rates, according to marketviews.

Three-month interbank declined to 14⅞-14$\frac{13}{16}$ per cent on the ERM speculation, before closing to 14$\frac{15}{16}$-14$\frac{27}{32}$ against 14$\frac{31}{32}$-14$\frac{29}{32}$ previously. One-year money touched 14⅝-14¼ per cent, but finished at 14$\frac{7}{16}$-14$\frac{5}{16}$ compared with 14$\frac{7}{16}$-14⅜.

Short sterling futures rose sharply in early trading on the ERM talk, with some traders believing that this week-end is a likely time to join, but the mood of euphoria was short-lived. December delivery opened at 85.96 and rose to a peak of 85.99, virtually discounting a cut of 1 per cent in base rates by the end of the year. It then fell back steadily to close at 85.83 compared with 85.88 previously.

The Bank of England forecast a money market credit shortage of £300m, and provided total help of £216m. The authorities did not operate in the market during the morning, but in the afternoon bought £166m bank bills in band 1 at 14⅞ per cent. Late assistance of around £50m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £535m, with a rise in the note circulation absorbing £80m. These outweighed Exchequer transactions adding £290m to liquidity, and bank balances above target of £5m.

In Frankfurt call money eased slightly to 8.05 from 8.075 per cent as the Bundesbank added a net DM7.5bn to the money market at this week's securities repurchase agreement tender. The central bank accepted bids of DM27.5bn at a two-tranche tender, allocating DM18.8bn of 29-day funds, at rates of 7.95-8.30 per cent, and DM8.7bn of 58-day money at 8.00-8.50 per cent. This outweighed an expiring facility of DM20.0bn.

Call money remained above the Lombard emergency financing rate of 8 per cent, but dealers said this was mainly because of difficulty among East German banks in assessing the amount of money they have to hold with the Bundesbank. This is keeping credit conditions tight, but the Bundesbank has shown in recent action that it has no presentintention of increasing official interest rates.

UK clearing bank base lending rate 15 per cent from October 5, 1989

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

FINANCIAL FUTURES AND OPTIONS

BASE LENDING RATES

MONEY MARKET FUNDS

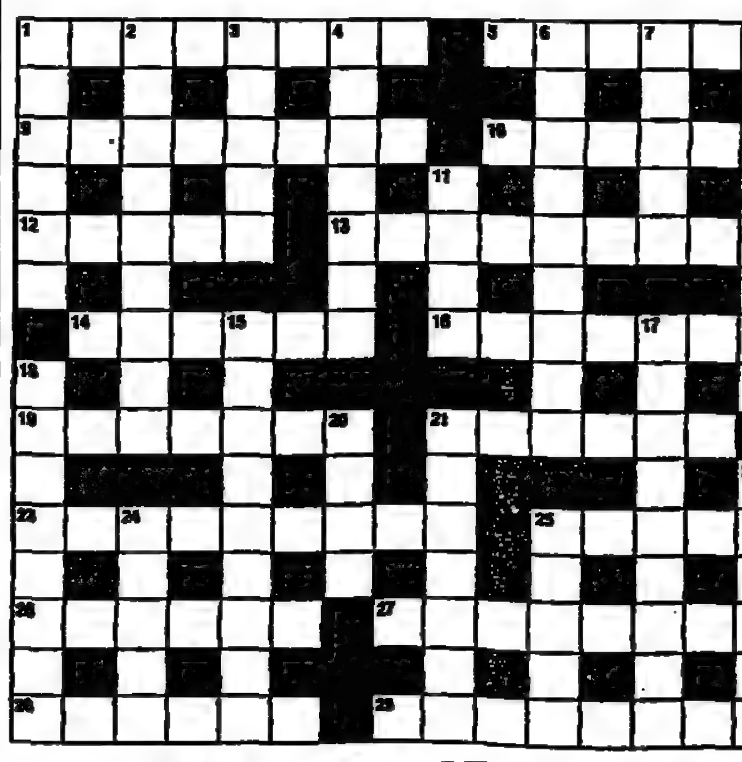
Money Market Trust Funds

Money Market Bank Accounts

JOTTER PAD

CROSSWORD

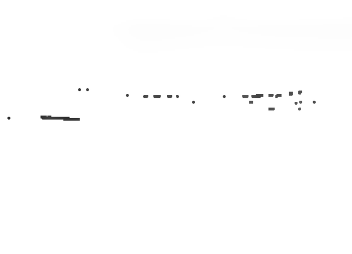
No.7,334 Set by VIXEN



ACROSS
1 Cut back severely – serve a little fish (8)
5 Sack the painter seen in a girl's embrace (6)
9 Shrink from a binding agreement (8)
10 Do well out of TV hire (6)
12 Proceed to prosecute on certain points (5)
13 Confounded triteness is of some concern (9)
14 A joint seat (6)
16 A servant named Ernie? (7)
19 Didn't stop sound urban development (7)
21 Heartless people bristle when given foreign coin (6)
23 Removing a top man framed by solicitor (6,3)
25 Your old-fashioned scrawny egghead (5)
26 Charge – one laid in Maine (6)
27 Keep causing a jam (8)
28 All green, so the fool replaces a quarter in grey (6)
29 Fanciful idler – he's well-liked (8)

DOWN
1 A paling protester (6)
2 Picture of the head of state? (9)
3 A little prudish or self-righteous beast (5)
4 Soldiers caught row and lie (7)
6 She daren't upset the fans (9)
7 The first sign of spring (5)
8 Many singers possibly make preparation (8)
11 Put out, so raising objections (4)
15 As may well be stated, one sets off (9)
17 A woman of authority with the right look backed up in correspondence (9)
18 Noticing jar when in pain (8)
20 Recess if there's a lack of accord (4)
21 A foreigner standing around though a danger to road-users (7)
22 A man over 50 should be in bed, it's observed (6)
24 The Greek character always in silk apparel (6)
25 A musician may have to sit awkwardly (5)

Solution to Puzzle No.7,333



WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

CANADA

TORONTO

2pm prices September 5

[illegible]

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INDICES

NEW YORK

DOW JONES	Sept. 4	Aug. 31	Aug. 30	Aug. 29	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2613.37	2614.36	2593.32	2632.43	2999.75 (16/7)	2483.42 (23/8)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.33	89.11	89.25	89.22	93.04 (3/1)	88.48 (2/5)	—	—
Transport	896.08	901.44	901.26	911.13	1212.77 (6/6)	861.31 (23/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	196.05	195.93	193.72	195.61	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2618.07 (2624.50) Low 2573.02 (2569.31)

STANDARD AND POOR'S	Sept. 4	Aug. 31	Aug. 30	Aug. 29	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	323.09	322.56	318.71	324.19	368.95 (16/7)	307.06 (23/8)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	382.86	382.05	377.71	384.47	437.37 (16/7)	362.23 (23/8)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	23.98	24.00	23.68	24.01	31.87 (3/1)	22.87 (23/8)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	177.13	176.97	175.23	177.78	201.13 (16/7)	168.88 (23/8)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	322.74	323.39	322.91	324.23	382.45 (5/1)	315.85 (23/8)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	381.67	381.21	378.68	381.78	469.60 (16/7)	360.22 (23/8)	485.73 (9/10/89)	54.87 (31/10/72)

	Aug 24	Aug 17	Aug 10	year ago (approx.)
Dow Industrial Div. Yield	4.29	4.10	3.98	3.39

	Aug 29	Aug 22	Aug 15	year ago (approx.)
S & P Industrial div. yield	3.24	3.34	3.11	2.75
S & P Indl. P/E ratio	15.47	14.96	16.07	14.31

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Pinnacle	1,986,500	12⅞	- 3⅛
Gen. Electric	1,513,500	61¼	- ⅛
IBM	1,187,500	102½	+ ⅝
Philip Morris	1,182,800	45⅛	—
Eastman Kodak	1,104,000	40⅞	+ ⅛
Boeing	1,089,800	48⅝	+ ⅞
Exxon	1,089,500	50⅛	+ ⅛
Contl. Corp.	1,086,100	24¼	—
Am. Express	1,055,800	24⅛	—
A T & T	1,031,200	32	- ⅛

TRADING ACTIVITY

† Volume (Millions)	Sept. 4	Aug. 31	Aug. 30
New York	92.940	96.480	120.890
Amex	8.787	6.697	7.312
NASDAQ	78.141	79.851	106.302
Issues Traded	1,950	1,939	1,969
Rises	657	890	467
Falls	805	572	995
Unchanged	488	477	507
New Highs	4	2	4
New Lows	2	91	67

CANADA

TORONTO	Sept 4	Aug. 31	Aug. 30	Aug. 29	1990 HIGH	1990 LOW
Metals & Minerals	3027.20	3046.71	3027.32	3020.76	3453.05 (4/1)	2850.80 (23/4)
Composite	3333.27	3346.25	3329.83	3339.72	4009.47 (3/1)	3329.83 (30/8)
MONTREAL Portfolio	1748.89	1756.54	1743.01	1752.42	2060.90 (3/1)	1720.25 (27/4)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Sept. 5	Sept. 4	Sept. 3	Aug. 31	1990 HIGH	1990 LOW
AUSTRALIA All Ordinaries (1/1/80)	1479.8	1494.2	1504.3	1507.6	1713.7 (12/1)	1434.5 (30/4)
All Mining (1/1/80)	731.6	737.9	738.7	741.2	860.8 (5/1)	711.7 (2/7)
AUSTRIA Credit Aktien (30/12/84)	505.61	507.57	518.47†	540.44	703.29 (19/3)	464.55 (25/8)
BELGIUM Brussels SE (Cash Mkt) (1/1/80)	5484.43	5472.88	5568.91	5608.12	6599.43 (12/1)	5243.52 (23/8)
DENMARK Copenhagen SE (3/1/83)	357.48	358.50	361.51	360.18	388.29 (20/7)	347.69 (23/8)
FINLAND Unitas General (1975)	507.7	512.3	512.8	516.5	677.3 (23/1)	507.7 (5/9)
FRANCE CAC General (31/12/82)	446.42	444.73	455.85	464.43	564.62 (30/5)	417.98 (22/8)
CAC 40 (31/12/87)	1638.32	1620.93	1644.01	1690.17	2129.32 (20/4)	1546.51 (21/8)
GERMANY FAZ Aktien (31/12/58)	676.60	685.25	691.53	693.31	832.32 (19/7)	655.37 (23/8)
Commerzbank (1/12/53)	1940.7	1966.7	1984.6	1987.7	2414.0 (3/4)	1875.4 (23/8)
DAX (30/12/87)	1564.27	1590.07	1629.22	1629.51	1968.55 (30/3)	1520.34 (23/8)
HONG KONG Hang Seng Bank (31/7/64)	3039.69	3054.16	3066.81	3087.50	3559.89 (23/7)	2738.24 (1/2)
IRELAND ISEQ Overall (4/1/88)	1289.24	1293.25	1312.97	1323.27	1893.10 (22/1)	1278.96 (23/8)
ITALY Banca Com. Ital. (1972)	606.69	603.96	614.48	626.88	763.52 (14/6)	584.37 (24/8)
JAPAN Nikkei (16/5/49)	24078.34	24907.64	25428.43	25978.37	38712.88 (4/1)	23737.63 (23/8)
Tokyo SE (Topix) (4/1/68)	1860.08	1910.38	1945.92	1973.97	2867.70 (4/1)	1829.25 (23/8)
2nd Section (4/1/68)	3667.56	3761.51	3821.84	3830.46	4477.16 (16/7)	3313.92 (5/4)
MALAYSIA KLSE Composite (4/4/86)	551.80	550.82	550.74	(c)	632.22 (1/8)	480.77 (23/8)
NETHERLANDS CBS Ttl.Rtn.Gen.(End 1983)	244.9	242.6	243.7	242.1	271.9 (20/7)	236.7 (23/8)
CBS All Shr (End 1983)	181.5	179.8	180.9	179.7	206.3 (3/1)	176.1 (24/8)
NORWAY Oslo SE (Ind) (2/1/83)	868.14	865.64	864.63	866.45	915.13 (2/8)	701.67 (2/1)
PHILIPPINES Manila Comp (2/1/85)	726.33	732.42	748.16	750.27	1160.70 (21/3)	683.58 (23/8)
SINGAPORE SES All-Singapore (2/4/75)	351.40	350.17	353.35	358.53	446.87 (16/7)	321.66 (23/8)
SOUTH AFRICA JSE Gold (28/9/78)	1687.0	1649.0	1685.0	1674.0	2230.0 (16/1)	1322.0 (20/6)
JSE Industrial (28/9/78)	2888.0	2904.0	2894.0	2901.0	3211.0 (6/2)	2738.0 (24/8)
SOUTH KOREA** Korea Comp Ex. (4/1/80)	625.00	632.34	635.37	606.87	928.82 (4/1)	587.38 (25/8)
SPAIN Madrid SE (30/12/85)	246.80	250.21	254.72	257.72	309.74 (16/7)	234.79 (23/8)
SWEDEN Affärsvärlden Gen. (1/2/37)	1133.3	1137.0	1153.9	1159.6	1329.9 (5/7)	1086.4 (23/8)
SWITZERLAND Swiss Bank Ind. (31/12/58)	683.2	686.6	697.1	699.2	845.5 (13/7)	656.4 (23/8)
TAIWAN** Weighted Price (30/6/66)	3364.49	3600.75	3574.89	3635.28	12495.34 (10/2)	3135.56 (24/8)
THAILAND Bangkok SET (30/4/75)	851.65	873.34	901.54	862.75	1143.78 (25/7)	695.81 (24/8)
WORLD M.S. Capital Intl. (1/1/70)	(u)	466.2	469.9	474.1	571.0 (4/1)	448.3 (24/8)

**Saturday September 1: Taiwan Weighted Price: 3768.11, Korea Comp Ex. 609.01

♦ Subject to official recalculation. † Corrected

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 April Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday 4 September 1990

	Stocks Traded	Closing Prices	Change on day
Ube Industries	21.2m	824	+37
Kurabo Inds	17.4m	1,020	0
Nippon Steel	9.3m	481	-14
Japan Mtl&Chm	7.6m	1,980	+40
Toshiba	7.4m	940	-15
Godo Steel	7.2m	2,380	+110
Nippon Lt Mtl	7.1m	1,240	-50
Fuji Heavy Ind	6.8m	846	-2
Teikoku Oil	5.8m	1,430	+10
Fujita Corp	5.6m	1,490	-40

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible] unavailable. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

3pm prices September 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A–A–A –								
37½	16⅛	AAR	.48	3.1	10	72	15¾	15¼	15½	– ⅛
9⅛	7⅞	ACM n	1.01	12.		319	8⅛	8	8⅛	+ ⅛
11⅞	9⅞	ACMIn	1.26	13.		400	9⅞	9¾	9⅞	
9⅛	7	ACM M	n1.01	14.		138	7⅞	7⅝	7⅝	+ ⅛
12⅛	10	ACMMM	1.50	13.		348	11¾	11½	11¾	+ ⅛
11½	9⅞	ACM Sc	1.26	13.		638	9⅞	9½	9⅞	+ ⅛
9⅞	7⅞	ACMSp	1.01	12.		203	8⅛	8⅛	8⅛	– ⅛
24⅝	14⅝	AL Lab	.16	.8	17	77	18⅞	18¾	18⅞	+ ⅛
5⅛	1⅞	AM Intl				211	1⅞	1⅞	1⅞	– ⅛
23½	7	AM In pf	2	22.		23	9⅛	8⅞	9⅛	+ ¼
107¼	43⅞	AMR			10	1712	45¼	44⅞	45¼	
26½	25	ANR pf	2.67	10.		20	25½	25½	25½	– ⅛
4⅛	2⅞	ARX			9	4	3	3	3	+ ⅛
72¾	41⅞	ASA	3a	6.1		782	50	48⅝	49¼	– ¼
45⅝	30⅞	AbtLab	s.84	2.1	30	5032	40⅛	39¾	40⅛	+ ⅜
15⅛	11¼	Abitibi	g .50			30	13⅝	13⅝	13⅝	
11⅞	6	AcmeC	.40	6.7	7	175	6⅛	6	6	– ⅛
32⅞	18⅞	Acuson	s		28	882	30⅞	30¼	30⅞	+ ½
16⅞	14⅛	AdaEx	2.05e	13.		123	15⅛	15⅛	15⅛	+ ⅛
15⅝	10	Adobe				107	11¼	11⅛	11¼	
20¼	17⅞	Adob pf	1.84	10.		33	18	17⅞	18	+ ⅛
21⅞	20⅛	Adob pf	2.40	12.		2	20½	20½	20½	– ⅛
11⅞	4⅞	AMD			23	4691	5⅞	5⅛	5⅛	+ ⅛
32⅞	23¾	AMD pf	3	12.		5	24¾	24¾	24¾	+ ½
9¼	3⅛	Advest	.16	4.9	41	6	3¼	3¼	3¼	– ⅛
62½	43	AetnLf	2.76	6.4	7	1272	43½	d42⅞	43⅛	
13¾	8¼	AfilPb	.24	2.7		108	9	8⅞	9	
25	15⅝	Ahmans	.88	5.2	7	861	16⅞	16⅝	16⅞	+ ⅛
61	43	AirPrd	1.44	3.2	12	941	46¼	45	45¼	+ ⅛
27	18⅞	AirFrt	s .30	1.5	11	175	20⅛	19⅞	20	
24⅝	13⅞	Airgas			28	10	15⅛	15⅛	15⅛	
20⅛	16½	Airlease	2.52	14.	8	23	17⅞	17⅞	17⅞	+ ⅛
10¼	8	AlaP	dpt.87	9.4		4	9¼	9¼	9¼	+ ⅛
98⅛	91⅞	AlaP pf	9	9.8		z200	91	d91	91	– ⅛
91	84⅛	AlaP pf	8.28	9.6		z120	86	86	86	– 1
[illegible]										

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chg
33½	18½	XTRA	.72	4.1		1	17⅞	17⅞	17⅞	+ ⅛
4	1⅛	Zapata				567	1½	1⅜	1½	+ ⅛
10⅞	5	Zemex				49	5⅝	5⅝	5⅝	
17¾	5⅛	ZenithE				395	6	5½	5¾	+ ⅛
9⅛	4½	Zenix	.90	17.		105	5½	5⅜	5⅜	
18½	10¾	Zero	.40	3.5	12	750	11½	11⅜	11½	+ ⅛
51⅛	34⅝	Zurnin	.76	2.0	16	435	38⅝	38	38	− ⅝
12⅝	10⅞	Zweig	1.21e	11.		142	10⅞	10⅝	10¾	+ ⅛
10	8⅝	ZweigTl	.96	11.		708	8⅞	8⅝	8⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices September 5

NASDAQ NATIONAL MARKET

3pm prices September 5

AMERICA

Dow manages a gentle rise in listless trading

Wall Street

QUIET AND directionless trading continued in the equity market yesterday, with few fresh developments in the Middle East or economic news to provoke more active trading, *writes Janet Bush in New York.*

At 2 pm, the Dow Jones Industrial Average was 7.67 higher at 2,621.04 having traded in a narrow range throughout the morning in low volume of only 76m shares. The Dow had risen 0.99 on Tuesday to 2,613.37.

Other indices were narrowly mixed at midsession with the broad-based Standard & Poor's 500 index 0.53 lower at 322.56 and the Nasdaq Composite index up 0.73 at 382.40.

Both stock and bond markets were on the defensive because of another rise in crude oil prices, but the oil rally was much less marked than on Tuesday. At midsession on the New York Mercantile Exchange, October futures were 35 cents higher at $29.47 a barrel. There was little other news.

The spokesman for Iraqi leader Saddam Hussein again called on Arabs to join in a holy war against the US in a televised address, but this has been said before and had little impact. The financial markets are getting used to the idea that the stalemate in the Middle East could carry on for a while.

In these extraordinary circumstances, volume has dwindled to the lowest levels of the year and traders have little idea how to value the market fundamentally. After the enormous drop in value during August, some argue that it is clearly oversold, but with a wealth of political and economic problems to deal with, there is also little incentive to pick up bargains.

The relatively steady performance by the US market came in spite of a plunge in Tokyo for the third consecutive session and a sharp drop in the dollar overnight.

US blue chips were mixed. Among technology issues, International Business Machines gained $⅞ to $103⅞ but Motorola dropped $⅜ to $70⅝ and Compaq, which jumped on Tuesday, fell $⅛ to $47⅝.

Consumer non-cyclicals, which were the market leaders during the rally to record highs in mid-July, did quite well. PepsiCo added $⅜ to $25⅜, Merck gained $⅛ to $81⅜, Procter & Gamble rose $⅛ to $78⅛ and Philip Morris was unchanged at $45⅝.

Oil company issues rose on the back of higher oil prices. Chevron gained $⅝ to $76⅝, Mobil added $⅞ to $65⅝ and Texaco added $1 to $63. Oil refining companies also did well. Diamond Shamrock gained $⅜ to $22 and Tosco added $⅜ to $19⅝.

Among featured individual stocks was Campbell Soup which dropped $⅝ to $49⅝ after the company announced a loss for the quarter ended July 29 after restructuring charges. Similar charges led to a loss in the same period a year ago.

Boise Cascade gained $⅜ to $29⅝ after Appleton Papers agreed to buy the company's Cascade paper mill in Vancouver, Washington, for about $60m.

Lukens, a manufacturer of plate steels, jumped $1⅛ to $35⅝ after the company told analysts that it had a good opportunity to score record results in 1990 following a record year in 1989.

Champion International gained $⅛ to $27⅝ after a US press report that Primark had filed for federal clearance to purchase more than $15m of its stock. In addition, Loews recently disclosed a 7.92 per cent stake in the company and investor Warren Buffett owns preferred stock convertible into an 8.5 per cent stake.

Canada

TORONTO STOCKS turned mixed after opening weaker in dull trading. The composite index firmed 1.1 to 3,334.4 on volume of 13.3m shares. Advances led declines 209 to 192.

Royal Bank was flat at C$21⅞ after reporting slightly lower third quarter earnings of 70 cents, down from 77 cents per share.

Seagram eased C$⅛ to C$87⅛ after reporting second quarter earnings of C$2.18 compared with C$2.07. Ford Motor of Canada lost C$1 to C$154; the Canadian Auto Workers said they chose the company as a possible strike target.

Among active traders, Laidlaw class B shares eased C$⅛ to C$20.

India turns a blind eye and goes it alone

R.C. Murthy on the background to the record-breaking run in India's stock markets

INDIAN STOCK markets are in a strong bull phase, their longest ever, and Bombay has been hitting records during August and the early part of this month.

Indeed, Bombay – India's largest market, accounting for half of total national trading – has been rising at such a pace that the stock exchange authorities introduced a further range of trading curbs on Monday in an attempt to cool the market down. These produced a 4.7 per cent fall on Tuesday, but the market was almost unchanged yesterday.

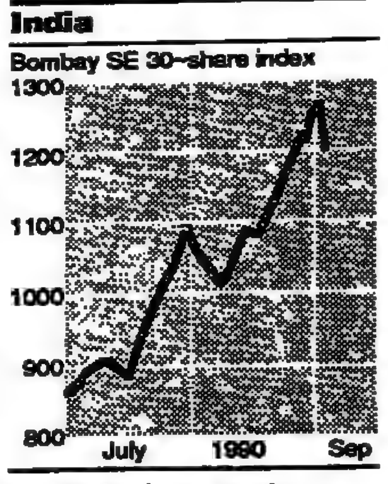
Traders have been seeing everything as rosy. The Indian markets have been moving in stark contrast to the gyrations of other world stock markets, which have been worried by the dangers of war in the Gulf.

Traders view the hardening world petroleum product prices as favourable, and shares of Reliance Industries and India Glycol, which languished until recently, have doubled. The polyester fibre raw materials made by the two companies will now become more competitive, enhancing the companies' profits. Reliance had surged to Rs200 ($11.40), standing now at about Rs186, from the nadir of Rs60 touched four months back, and India Glycol had risen to Rs60 from Rs32.

The BSE index has gained 134 points or 12.6 per cent over the past five weeks, closing yesterday at 1,200.76. The total rise since the start of July has been about 340 points or 40 per cent.

The bull phase began in mid-June, propelled by strong speculative buying in Associated Cement Companies (ACC), India's largest cement producer. The market welcomed the news that Mr Darbari Seth, a high-flying executive from the Tata group of companies, was taking control of ACC, and intended to turn the concern into a more vibrant company. Its shares have quadrupled from less than Rs350 to Rs1,400 in three months.

India



The market was poised for a rally in May, when the fundamentals turned favourable. The Government had just announced deregulation of several industrial segments, and foreign investment of up to 40 per cent of equity was allowed freely in Indian companies. The monsoon rains arrived on time raising hopes of a good harvest for a third year.

Bullish investors responded positively to every piece of news, ignoring adverse features. Shares rose when Deputy Prime Minister Devi Lal was sacked by the Prime Minister. The markets have turned a blind eye to the adverse effects on the balance of payments of an additional Rs30bn that India has to spend for importing petroleum crude and continued political instability.

Earlier measures by the BSE authorities designed to contain the rally have had only temporary success. The banning of forward trading in the 80 most active issues on July 31 caused daily turnover to plunge, but share prices kept rising.

Traders simply shifted their focus to the 500 or so less active issues, lured by what they considered to be bargain prices. The BSE slapped a 20 per cent cash margin on purchases of these shares. But it had little effect.

Even Mastershare, the growth-oriented mutual fund of Unit Trust of India which stagnated at about Rs15 for four years, has doubled to Rs30, nearing its net asset value of Rs32.

A Citibank analyst says the stock market boom represents a shift in the perceptions of economic growth by investors. Average price/earnings ratios have for the first time touched double digits.

Another view is that the unprecedented boom is partly due to the diversion of public savings to the secondary market, following delays by the Government in formulating new capital issue guidelines. Once the primary market becomes active, the advance should subside.

In spite of the measures introduced this week, the market seems poised to continue its climb for some time, before the bulls get tired and retreat or a major domestic development hits the market.

ASIA PACIFIC

Selling by investment trusts hits Nikkei

Tokyo

THE NEGATIVE external environment continued to cast a dark cloud over the market yesterday, and widespread selling by investment trusts and arbitrageurs took share prices sharply lower in listless trading. The Nikkei average lost more than 1,200 points before partially recovering towards the close, *writes Michiyo Nakamoto in Tokyo.*

Selling hit the market in early trading, led by falls on the futures market, and continued unabated throughout the day. At one stage, the Nikkei average had lost 1,267.12 points as it tumbled below the psychologically important barrier of 24,000 to a new low for the year of 23,640.52. At this level, buying picked up and helped the Nikkei to recover to finish the day down 829.31 at 24,078.34. The high was 24,888.27.

Declines outstripped advances by 951 to 62, while 71 issues were unchanged. Turnover was paltry at 380m shares, although up moderately from Tuesday's 330m. The Topix index of all listed stocks fell 50.30 to 1,860.08, but in London trading the ISE/Nikkei 50 index rose 12.39 to 1,404.72.

The mood was one of increasing gloom as the outlook for the market remained bleak. Inflationary pressures were expected to mount as the Middle East crisis stretches out and prospects for a settlement remained discouraging. One Japanese analyst pinned the blame for yesterday's fall on rumours that there could be an all-out war in the Middle East.

But the greater concern for the moment was the inflationary impact of prolonged Gulf sanctions. Higher oil prices looked set to stay for some time, and the Japanese oil industry indicated that it was prepared to fight for price increases in spite of intense opposition from some corners of the Government.

There have been reports that the domestic prices of raw materials were likely to head higher in the October to December term. It was beginning to look increasingly unlikely that, as some of the more optimistic investors had hoped, last week's raising of the official discount rate would keep a lid on further interest rates increases.

"There are too many unpredictable factors affecting the market," lamented Mr Mitsuru Maekawa at Jardine Fleming. "There is no hope in the short term." A growing number of analysts has started to indicate a recovery period spanning two or three years, rather than months.

Against this background, there was a wave of selling by investment trusts, which face cancellations, and by arbitrageurs selling to unwind their positions.

Large-capital issues were heavily sold and Nippon Steel topped the actives list. It lost Y11 to Y470 with 21.2m shares traded.

Issues that had risen on special incentives and speculative buying were widely sold. Ube Industries, second in volume with 14.2m shares, dropped Y45 to Y779. Kurabo followed with 12.3m shares and declined Y100 to Y1,720.

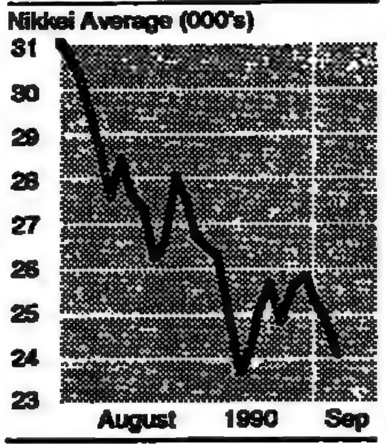
Large-capital electricals lost ground, although expectations of strong earnings remained. Toshiba fell Y10 to Y30, in spite of a newspaper report that it was likely to post a 6.5 per cent increase in recurring profits.

In the general downtrend, Sumitomo Metal Mining was actively pursued and gained Y60 to Y1,270 on the news that it had found a new gold vein. The Tokyo Stock Exchange suspended trading in the issue later.

Iwatani, which specialises in gases for industrial and household use, surged Y106 to Y1,070 in active trading. The issue was bought on talk that it was involved in hydroelectric power generation.

The OSE average in Osaka suffered profit-taking and lost 642.23 to 29,313.36. Volume was up to 42m shares from Tuesday's 37m.

Japan



Roundup

THE FALL in Tokyo and continued Middle East tensions caused most markets to fall, although bargain-hunters lifted Singapore and Malaysia.

AUSTRALIA fell to its lowest level for eight trading days, depressed by the Tokyo market's slump and disappointing corporate results. The All Ordinaries index fell 15.2 to 1,479.2. Volume was 58m shares worth A$121m.

Transport group Brambles fell 30 cents to A$13.40; it is expected to release its annual profits this week. Tobacco group Wills Holdings fell 33 cents to A$2.12, with most analysts revising the company's *full year profit outlook.*

NEW ZEALAND edged lower in a lacklustre session as domestic and international uncertainty dampened enthusiasm. A number of block sales helped boost turnover above its recent thin levels.

The Barclays index fell 6.03 to 1,592.20. Turnover totalled 8.4m worth NZ$13.1m, up from 6m and NZ$8.3m on Tuesday.

TAIWAN plunged 6.6 per cent on worries about the economy and in reaction to Tokyo's decline. The weighted index fell 236.26 to 3,364.49, in turnover down to T$25.4bn from T$33.1bn on Tuesday.

HONG KONG fell on an absence of fresh news from the Gulf. The Hang Seng index shed 14.47 to 3,039.69 in dull trading.

SINGAPORE closed slightly firmer on bargain-hunting in thin trading. The Straits Times Industrial index recovered 5.22 to 1,258.03. KUALA LUMPUR also rose, as investors ignored losses in Tokyo and hunted for bargains. The composite index added 0.17 per cent to 551.89.

SOUTH AFRICA

DULL trading in Johannesburg yesterday left share prices lower, as the Middle East continued to dominate attention. The all-gold index lost 42 to 1,607. Vaal Reefs dropped R8 to R300 and Freegold shed R2.75 to R39.35.

EUROPE

Frankfurt remains gloomy as Paris makes recovery

DEPRESSION continued to hang over Frankfurt, which fell 1.6 per cent, but some other markets, including Paris, achieved modest gains yesterday, *writes Our Markets Staff.*

FRANKFURT fell again in a thin, gloomy session, dominated by worries about the Middle East conflict and the cost of combining the two Germanys. The DAX index dropped 25.80 to 1,564.27 and the FAZ shed 8.65 to 676.60. Turnover was DM4.2bn, up from Tuesday's DM3.6bn.

Hoechst, the chemical company which announced a fall in first-half profits in line with expectations the previous day, eased 50 pfg to DM232. The other two big chemical groups, Bayer and BASF, fell DM3.70 to DM236.50, and DM3.50 to DM227.50, respectively.

Volkswagen, which reported a fall in operating profit last week, declined DM9.10 to DM453. Elsewhere in the sector, BMW fell DM17 to DM463.

Deutsche Bank shed DM15.50 to DM658.50, although the bank said that it expected to be able to maintain the 14 per cent growth rate in operating profits achieved in the first half of the year. Dresdner Bank, which said after the market closed that it had raised its stake in Dresdner Bank Kreditbank of East Germany to 85 per cent from 49 per cent, lost DM6 to DM400.

Kaufhof, the department store group, slipped DM4 to DM576.50 after saying that first-half earnings this year were significantly above those in the same period of 1989, but gave no further details.

PARIS reversed most of the previous day's losses, as the CAC 40 index rose 17.39 to 1,638.32. Many of the most active blue chips ended slightly lower, however, and trading was generally light.

Some oil shares were strong, with Esso France gaining FFr62 or 10.1 per cent to FFr675 and Total up FFr13 at FFr646.

The worst performer was Sanofi, the pharmaceuticals company, which dropped a further FFr35 to FFr720 in active trading after its disappointing half-year figures on Tuesday. The session's biggest volume was in CMB Packaging, which gained FFr3.70 to FFr133.40 with 643,750 shares traded.

Rhône-Poulenc, the state-controlled chemical group, fell FFr8 to FFr270; it announced a 13 per cent fall in first-half net profit.

MILAN achieved a small rise in light turnover. The Comit added 2.73 to 606.69.

Enimont gained L12 to L1,135 at the official fixing, rising to L1,170 later. The Government said that ENI, the publicly owned hydrocarbons concern, could come to a compromise deal with or buy out Montedison, the private sector chemicals group, if no agreement was possible over Enimont, their joint venture. Montedison rose L34 to L,413.

AMSTERDAM rose in hesitant trading, with the CBS tendency index gaining 0.9 to 101.3. Pakhoed, the transport and storage group, added Fl 7.80 to Fl 201, more than recovering Tuesday's fall.

Gist-Brocades rose Fl 1.50 or 6 per cent to Fl 26.00 on takeover speculation. On Tuesday, the company said that it was dissolving a joint biotechnology venture with the Royal Dutch/Shell group.

BRUSSELS extended its early gains on selective bargain-hunting and some short covering before a new forward market period, starting today. Volumes, however, were low. The cash market index rose 11.55 to 5,484.43 and the forward market index gained 31.77 to 5,447.30.

Oil group Petrofina jumped BFr250 to BFr10,750. UCB, the chemicals group due to announce first-half profits today, gained BFr425 to BFr22,075.

MADRID fell as domestic worries combined with fears about the situation in the Middle East to pull shares lower. The general index fell 3.41 to 246.80, after Mr Mariano Rubio, theBank of Spain governor, said late on Tuesday that interest rates would have to remain at current levels.

STOCKHOLM was initially encouraged by first-half results from Astra, the pharmaceutical company, but slipped back to finish slightly lower. Astra free B shares rose to SKr540, before closing at SKr535, up SKr10, after the company reported a 31 per cent profits gain.

The Affärsvärlden General index slipped 3.70 to 1,133.30.

OSLO ended little changed overall, although oil shares enjoyed a modest rise. The all-share index eased 0.65 to 602.16 in moderate turnover of NKr350m. Norsk Hydro gained NKr3 to NKr233 and Saga Petroleum free shares added NKr3 to NKr183.

ZURICH's Crédit Suisse index dipped 0.5 to 546.4. Oerlikon-Bührle, the industrial and armaments group, shed SFr35 to SFr720 on expectations of lower earnings.

ATHENS' general index lost 55.35 or 4 per cent to 1,315.05.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY SEPTEMBER 4 1990 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY SEPTEMBER 3 1990 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 1990 High	1990 Low	Year ago (approx)
Australia (80)	143.53	−0.5	113.37	130.29	118.17	116.99	−0.8	6.30	144.27	114.19	130.86	118.85	117.88	158.31	125.85	154.91
Austria (19)	[illegible]															
Belgium (61)	[illegible]															
Canada (119)	[illegible]															
Denmark (33)	[illegible]															
Finland (26)	[illegible]															
France (123)	[illegible]															
West Germany (92)	[illegible]															
Hong Kong (48)	[illegible]															
Ireland (17)	[illegible]															
Italy (96)	[illegible]															
Japan (454)	[illegible]															
Malaysia (35)	[illegible]															
Mexico (13)	[illegible]															
Netherland (42)	[illegible]															
New Zealand (17)	[illegible]															
Norway (23)	[illegible]															
Singapore (25)	[illegible]															
South Africa (60)	[illegible]															
Spain (42)	[illegible]															
Sweden (34)	[illegible]															
Switzerland (58)	[illegible]															
United Kingdom (301)	[illegible]															
USA (536)	[illegible]															
Europe (977)	[illegible]															
Nordic (116)	[illegible]															
Pacific Basin (659)	[illegible]															
Euro - Pacific (1636)	[illegible]															
North America (655)	[illegible]															
Europe Ex. UK (676)	[illegible]															
Pacific Ex. Japan (205)	[illegible]															
World Ex. US (1828)	[illegible]															
World Ex. UK (2063)	[illegible]															
World Ex. So. Af. (2304)	[illegible]															
World Ex. Japan (1910)	[illegible]															
The World Index (2364)	130.75	−0.9	103.27	118.68	107.64	119.85	−0.9	2.92	131.96	104.46	119.71	108.72	120.96	162.05	125.57	150.48

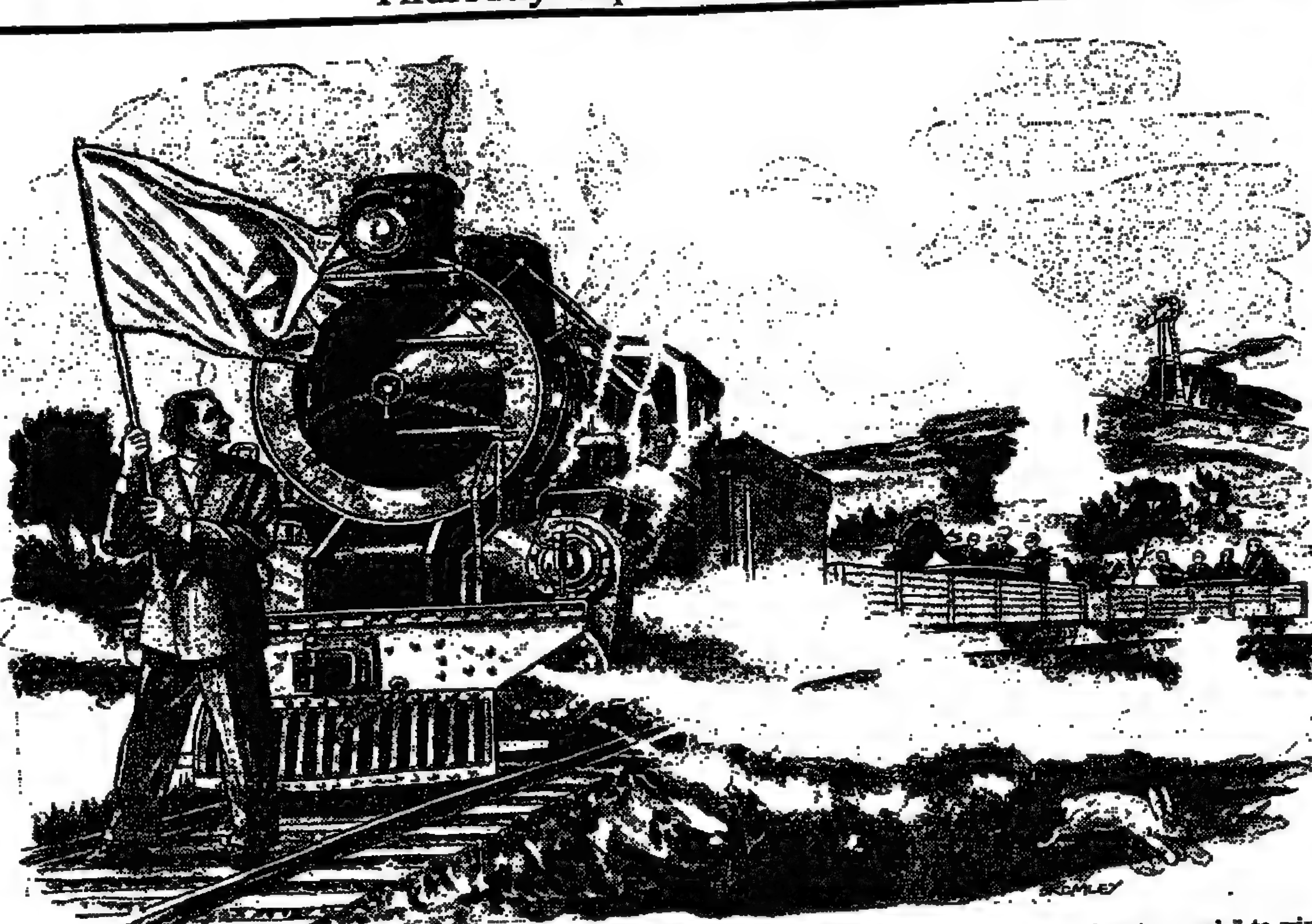
Latest prices were unavailable for this edition.
Constituent changes 5/9/90: Addition: Leu Hldgs.(Switzerland).Deletions: Mira Lanza (Italy),Jacobs Suchard and Bank Leu (both Switzerland).

FINANCIAL TIMES SURVEY

MANAGEMENT BUY-OUTS

Thursday September 6 1990

The buy-out industry enters the 1990s in a chastened mood with the emergence of problems at several recent buy-outs. However, **Charles Batchelor** reports that, while the large, highly-leveraged deals have fallen out of favour, there is still scope for the smaller transaction



Pace drops in the slow lane

AFTER NEARLY a decade in the fast lane the management buy-out industry has slowed to a less exhilarating but probably safer speed. The collapse last month of Lowndes Queensway, Britain's second largest carpets and furniture retailer, and the refinancings of MFI and Magnet have left their backers feeling decidedly car-sick and persuaded others in the sector to throttle back a notch or two.

The seemingly unstoppable upward progress in the size of buy-outs and buy-ins – MFI for £718m in 1987, Reedpack for £805m in 1988 and Gateway for £2.37bn last year – has been replaced by a steady stream of more modestly priced deals. Levels of buy-out activity seem certain to drop in 1990 after nine years of unbroken growth.

"We wouldn't grieve if we filled our fund with deals of between £30m and £50m," says Mr Robert Smith, architect of the then record-breaking MFI buy-out and now chief executive of Morgan Grenfell Development Capital. Morgan Grenfell completed the raising of a £145m fund to back larger deals last April and is raising a £30-£50m fund to finance smaller buy-outs.

Buy-outs of publicly-listed companies – which prompted a storm of protest from institutional investors concerned at the potential misuse of inside information by managers – have practically dried up. This has left the finance teams to concentrate on private company deals and disposals of parts of larger companies.

Twenty-four large management buy-outs (those valued at £10m and more) were completed in the first six months of 1990 compared with 36 in same 1989 period, according to accountants Peat Marwick McLintock. The value of deals in the first half of this year fell 35 per cent to £1.28bn from £1.97bn in the same period of 1989. This total included £280m worth of small deals (worth less than £10m) compared with £300m last year.

The main dampers on buy-out activity have been the high level of UK interest rates and the down-turn which is being experienced predominantly in the consumer-related sectors. This has made the banks far less willing to finance highly-leveraged deals and forced vendors for the most part to screw down their price expectations. "Power has shifted from the equity providers to those who can provide the debt," comments Mr Olivier Descamps, managing director of Chase Investment Bank.

Banks will rarely finance a buy-out with a debt-to-equity ratio of more than 2:1 compared with the average level last year of 5.3:1 (3.4:1 if the exceptional Gateway deal is excluded). Even more significant, the crucial ratio for the banks has become the degree to which profits cover interest charges. Before the set-backs of 1989 banks would finance deals offering cover of 1.1 to 1.3 times earnings but now insist on two times earnings, says Mr Smith.

In spite of the downturn in the buy-out sector concentration on the problems of one or two large deals has tended to exaggerate the industry's woes. Companies – and increasingly, receivers – are disposing of a steady stream of smaller businesses to willing buyers. Hozelock, the garden products group; The British School of Motoring; and more than 300 Wimpy fast food restaurants have all been acquired by management teams in recent months.

At the same time the profits that can be made from buy-outs, by both managers and backers, were vividly illustrated by the sale in June of Reedpack, a paper and packaging group, to Svenska Cellulosa of Sweden for £1.05bn. Managers earned 34 times their initial stake while institutions made 2½ times their original investment in just two years.

Many people in the buy-out sector believe the continuing economic recession will increase the amount of buy-out and buy-in activity. This is given additional credence by the fact that seven or eight buy-out funds are believed to be raising new capital.

"High interest rates have begun to squeeze companies," comments Mr Roger Brooke, chief executive of Candover Investments. "If they want to get the burden of interest charges down and preserve their core business they will have to sell off operations. We have seen a tremendous increase in buy-out proposals made to us since March."

Many buy-out specialists see future growth coming from buy-ins – where outside managers come into the company – rather than from the traditional buy-out. This suits the deal-makers because finding a buy-in team and matching it with a target company puts a greater premium on their skills.

"It puts us in the position of active dealmaker and allows us to become more closely involved in setting out the terms of the transaction," comments Mr David Shaw, managing director of County NatWest Ventures. It spares the competing deal-makers the need to face a "beauty parade" to win the contract, he says.

MMG Patricof, a London-based venture capital group, takes buy-ins further than most by acquiring businesses outright and putting its own in-house management team in charge for the first year or so. Patricof directors are in charge at James Neill Holdings, the publicly-quoted hand tool manufacturer acquired last October.

In spite of this enthusiasm for buy-ins they are more risky (though, if successful, more rewarding) than buy-outs because the new managers are less familiar with the business. They are also more difficult to arrange.

Candover attempted to arrange a buy-in at Coloroll after the home furnishings group had gone into receivership but could not put together a management team in time, says Mr Brooke. "It is a floating population (of potential buy-in managers)," he explains. "If the manager gets a job he is gone from the market."

While Britain remains the leading market for management buy-outs in Europe, activity is increasing on the continent. A total of 2,992 buy-outs and buy-ins were completed in the UK between 1980-89 compared with 430 in France, 245 in The Netherlands and 111 in West Germany, according to Nottingham University's Centre for Management Buy-out Research.

UK-based deal-makers are continuing to raise funds for investment in continental Europe. Charterhouse Development Capital linked up with Banco Santander de Negocios last year to raise a £32m fund for investment in Spain while Granville is raising a fund in France.

The activity of the UK-based deal-makers in southern Europe and the large sums of money they have available has pushed up the prices of deals in Spain and Italy, says Mr Descamps of Chase Investment, which recently raised an Italian fund.

Parallel with this expansion in continental Europe has come an increase in activity in the UK regions outside the south-east, traditionally the centre of most buy-out (and venture capital) activity.

London and the south-east have lost out because most of the larger buy-outs – those most affected in the down-turn – have been arranged by the more sophisticated, London-based financial groups. Smaller deals have continued to be done however producing a shift in relative levels of activity to the regions. In addition, the economic recession has been most evident in the south-east.

In spite of the difficulties facing the buy-out industry most of the leading players remain optimistic that activity will increase again and that public companies will again go private by means of buy-outs or buy-ins. According to one deal-maker "the sheer misery" of being a small publicly-quoted company with a low market rating and pressure to perform mean this market is bound to revive.

IN THIS SURVEY

Roger Brooke: increase in buy-outs

Editorial Production: Phillip Halliday, Andrew Slade

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MANAGEMENT BUY-OUTS 3

Charles Batchelor unscrambles the trade jargon

Pay due diligence to the lemons, plums and kickers

EVERY trade or profession has its technical terminology or jargon and the management buy-out sector is no exception.

Buy-outs in Britain have traditionally been handled by venture capitalists, so some of the terms derive from the venture and development capital areas. Others have their origins in the world of corporate finance.

Whatever their provenance, they can sometimes prove confusing to management buy-out teams, most of which have no previous experience in this field.

■ **Bought deal:**
Term used when a deal maker provides all of the finance needed for a buy-out deal and then sells on or syndicates part of the funding to other investors at a later stage.

Bought deals are often used by the larger providers of finance when speed or confidentiality are particularly important

■ **Bridge financing:**
Short term funding provided when a company is about to raise a new round of equity or is about to go public

■ **Caps, collars and cylinders:**
Clauses in buy-out deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. They can provide a safeguard against borrowing costs rising to the point where they endanger the company.

Such agreements usually have a limited life of one or two years.

The longer the period of cover, the more expensive the collar or cap

■ **Carried interest:**
A stake taken in the investee company by the venture capital or buy-out fund managers. Carried interest can be in the form of options

■ **Deal flow:**
The rate at which investment propositions come to the deal-maker or financier.

Many financiers claim to select only one deal in 50, though some appear to treat flow numbers as a sort of virility symbol

■ **Development capital:**
Later stage finance for more established companies which are profitable or nearly profitable. It is generally less risky than early stage finance

■ **Due diligence:**
Detailed analysis and appraisal of the background of the entrepreneur and his business plan

■ **Earn out:**
This term is used to describe either a formula for relating the final purchase price of a company to actual future earnings, or a means of encouraging management to perform by payment on the basis of their future performance (see also ratchet)

■ **Equity kicker:**
An option to acquire equity often granted to the provider of mezzanine finance (qv) to compensate for the higher risk involved in this type of funding

■ **Exit:**
The point at which the financier sells his holding in the buy-out company either through a trade sale to a larger company, by the management buying out the other to assume complete control, or by a stock market flotation.

It is essential in management buy-outs that the managers and financial backers agree from the beginning on the exit strategy

■ **Gearing or leverage:**
Borrowings as a percentage of shareholders' funds

■ **Internal rate of return (IRR):**
Different people work this out in different ways, but the term IRR generally refers to the annual rate of return to the investor over a given period, including dividend distributions and the profits from disposals or the profits shown on a fair valuation of the buy-out company

■ **Junior debt:**
Loans which rank after secured or senior debt for repayment in the event of a default

■ **Junk bonds:**
High yielding but unsecured and therefore high risk debt used in us buy-outs.

Being in bond rather than loan form junk bonds can be bought and sold more readily than their UK equivalent, mezzanine loans (qv)

■ **Lead investor:**
Venture capitalist or other deal-maker with the largest share in the syndicated investment.

He usually initiates the deal and takes a hands-on role on behalf of the other partners

■ **Lemons and plums:**
Bad deals and good. 'Bad investments usually go wrong before the good ones produce a profit: the lemons ripen before the plums

■ **Living dead:**
Companies which are just about trading profitably but which are unlikely to really well.

A slightly dated term used about investments the deal-makers prefer to forget

■ **Leveraged buy-out:**
Similar to a management buy-out though usually applied to US deals where the transaction will have been initiated by a financial group rather than the management.

The name refers to the high level of borrowing which the company takes on, using the assets being purchased as leverage.

With the financiers taking a lead role in some of the large buy-ins and buy-outs of public UK companies the term is also sometimes applied to UK deals

■ **Management buy-in:**
An offshoot of the management buy-out industry. The purchase of a business by one or more outside managers with the help of a group of financial backers.

The term is now applied somewhat indiscriminately to any bid involving a well known City figure, on the grounds that buy-ins sound more constructive than hostile takeovers.

Because buy-ins involve an outside management team which does not kno w the company as well as a buy-out team would they are riskier but, if successful, more lucrative for the backers

■ **Management buy-out:**
The purchase of a business by its existing management with the help of a group of financial backers. The managers put up a relatively small amount of the total finance but usually gain a disproportionately large share of the equity. Buy-outs are funded largely by loans secured on the assets of the company itself

■ **Mezzanine finance:**
Unsecured loans which rank after secured or senior debt but before equity in the event of the company failing. To compensate for the greater risk to the lender, it usually earns interest one to three percentage points above secured loans and often carries an equity 'kicker' to give the lender a stake in the equity

■ **Newco:**
The buy-out is usually carried out through a newly created company normally referred to as Newco

■ **Ratchet:**
An incentive arrangement whereby the managers get a bigger share of the equity if the venture performs well. Sometimes managers forfeit shares if they do particularly badly (see also Earn-out)

■ **Replacement capital:**
When an entrepreneur sells some of his shares to raise money or because he wants to pull out of the venture, the cash he receives is known as replacement capital

■ **Second-round financing:**
is becoming increasingly available to provide funds which buy-outs which have done particularly well and which want to restructure their finances or raise new money for investments on more favourable terms.

It is usually provided by the original financiers but in some instances management teams have turned to new backers. It may also be available to buy-outs which have performed less well than expected and which need extra funds, in which case it often goes hand in hand with a change of management

■ **Senior debt:**
Secured debt which ranks first in terms of repayments in the event of a default.

See also junior debt

■ **Slippage:**
This is what happens when the buy-out company starts to eat up more cash than expected because development costs exceed budget or sales grow too slowly

■ **Star:**
A company which is so successful that it pays for all the failures in a financier's portfolio many times over

■ **Stub equity:**
A stake which the ve[illegible] retains in the bought out [illegible]pany.

This allows the ve[illegible] share in good perfo[illegible] and, if the bought out c[illegible] performs spectacular[illegible] means that he can demo[illegible] to his own shareholders he did not sell the compa[illegible] too cheaply.

Used in only 2 per cent [illegible] deals in 1986, stub equity no[illegible] features in more than half (see also Vendor Finance)

■ **Syndicated investment:**
An investment which is too large and risky to be handled by one investor and which therefore needs to be shared among several partners.

All but the very large investors syndicate their deals

■ **Vendor finance:**
Finance provided by the vendor in the form of an agreement to accept deferred payment or, alternatively, a retained minority stake in the bought-out company

See also Stub Equity

■ **Venture capitalist:**
Deal-maker who provides funds and advice to entrepreneurs either starting a business from scratch or staging a management buy-out.

The failure of many start-up companies backed in the early days of the venture capital industry has persuaded many venture capitalists to concentrate on later stage investments, more properly known as development capital, and on buy-outs.

Leading Accountants

	1981/86	1987/88	1989/90	Total
KPMG Peat Marwick McLintock	36	28	31	95
Coopers & Lybrand Deloitte	15	15	14	44
Touche Ross/Spicer & Oppenheim	4	16	12	32
Price Waterhouse	5	6	20	31
Ernst & Young	5	9	12	26
Arthur Andersen	6	7	9	22
Other	4	3	9	16
None/not known(duplication)		4	1	5
	75	88	108	271

Source: KPMG Peat Marwick McLintock
15th August, 1990

Leading Equity Investors

	Number of investments in larger MBOs			
	1981/86	1987/88	1989/90	Total
3i	31	23	14	66
County NatWest	14	23	18	55
CIN	22	18	11	51
Charterhouse	14	22	12	48
Citicorp	15	17	14	46
Prudential	20	13	10	43
Electra	24	11	2	37
Midland/Samuel Montagu	11	18	7	36
Phildrew	5	13	16	34
Lloyds DC	11	10	12	33
Barclays DC/BZW	10	13	9	32
Globe	11	15	5	31
Candover	13	10	7	30
Legal & General	15	7	7	29
Kleinwort Benson	11	10	6	27
Mercury	5	14	8	27
Schroders	9	8	3	20
Murray Johnstone	11	3	5	19
MIM	6	6	6	18
Bankers Trust	5	6	6	17
ECI	9	6	1	16
Hill Samuel/Fountain	9	5	2	16
Foreign & Colonial	8	3	2	13
SPHG Equity/SecPac		8	5	13
SUMIT	7	4	2	13
Standard Chartered/CWB		9	3	12
Scottish Eastern	7	1	3	11
Granville	3	3	4	10
Norwich Union	9	1		10
Sun Life	3	5	2	10
Standard Life	1	7	1	9
Fleming	3	4	1	8
Gartmore	4	1	3	8
Rothschild	6	2		8
Bank of Boston	4	3		7
Commercial Union	2	4	1	7
APA/MMG Patricof	1	3	2	6
Causeway Capital	1	3	2	6
Eagle Star	6			6
Gresham	4	2		6
Ivory & Sime	2	4		6
Morgan Grenfell	2		4	6

Source: KPMG Peat Marwick McLintock
15th August 1990

MANAGEMENT BUY-OUTS 4

Leading Solicitors

	1981/86	1987/88	1989/90	Total	Acting for: Deal Leader	Managers
…ifford Chance	21	28	32	81	59	22
…urst Morris Crisp	16	11	10	37	28	9
…& Overy	6	11	13	30	23	7
…ert Smith	10	7	6	23	14	9
…ields	11	6	4	21	18	3
…hter & May	12	6	1	19	9	10
…al	4	7	7	18	18	
…anes	2	7	9	18	13	5
…lkinson	4	4	6	14	2	12
… Markby Hewitt	3	2	9	14	11	3
…ite Durrant	2	6	6	14	8	6
… Wells & Hind	3	3	6	12	1	11
…ose	6	1	5	12	6	6
…win	1	5	6	12	5	7
…on Minto	3	4	4	11	3	8
…r Kenneth Brown	3	2	5	10	1	9
…laters & Paines	4	3	2	9	6	3
…mpson & Curtis	1	4	4	9	1	8
…avers Smith Braithwaite	3	5	1	9	5	4
Nabarro Nathanson	1		7	8	1	7
Wragge & Co	1	5	2	8	2	6
Dibb Lupton Broomhead	2	3	1	6	1	5
Wilde Sapte	1	3	2	6	6	
McGrigor Donald		3	2	5	2	3
Berwin Leighton	1	3		4	2	2
Dundas & Wilson		4		4	2	2
Kimbell & Co		2	2	4		4
Simmons & Simmons	1		3	4		4
Taylor Joynson Garrett	1		3	4	1	3
Theodore Goddard		2	2	4		4
Others	24	28	48	100	19	81
None/not known/(duplication)	3	1	8	12	4	8
	150	176	216	542	271	271

Source: KPMG Peat Marwick McLintock
15th August, 1990

PROFILE: Lexterten

'Only once in a life-time'

THE NATURE of a management buy-out means it's something you do only once in your life-time, says Mr Philip Gee, managing director of Lexterten Holdings, the Kent-based manufacturers of reproduction furniture.

For that, he is probably eternally grateful. Lexterten completed its management buy-out from the specialist niche retailers Era Group in April 1990. It came after almost one year of protracted negotiations which in the later stages became highly acrimonious among Era shareholders, culminating in the resignation of two directors and the chairman. "Nightly I feared it would all fall through from Era's side," admits Mr Gee.

Lexterten had been purchased by Era in 1987. In that year Lexterten's turnover came to £14.3m providing a trading profit of over £1m.

In 1988, there was a management buy-in of Era by the ex-management of Combined English Stores. At around the same time the profits fell. Turnover in 1988 increased to £15.5m but the company made a trading loss of just under £1m.

The company's prospects for 1989 looked bleak. Era decided it was time to get out and in May 1989 Lexterten was put up for sale. Era's fears for Lexterten's results came true. Turnover for 1989 was £14.7m with a trading loss of £2m.

Mr Gee, who joined Lexterten in July 1988 having previously been a divisional director of Booker, blames the company's losses on a number of factors.

"The whole retail market had gone down badly. In order to keep our sales up and manufacturing steady, we had to discount heavily on prices and margins suffered accordingly," he says.

In the meantime, Lexterten's cost base went up – partly due to inflationary pressures but mainly as a result of being taken over by Era.

"Prior to the acquisition the company had been entrepreneurially run on a shoe-string and with no middle-management," explains Mr Gee. With the advent of Era came a new management structure put in place largely to answer the parent company's needs for the future planned expansion of the company.

As soon as the company was put on the market, Lexterten's management started putting together a deal to purchase it. Era were asking for over £6m. The management offered £4m. "It's what we valued it at and what we could raise," says Mr Gee. The offer was rejected and the management began to show other prospective buyers round the company.

Mr Gee believes that two or three offers were made to Era by other contenders. As high interest rates had an impact on consumer spending, the retail market and the furniture sector in particular looked gloomier and gloomier. The bid prices for Lexterten gradually came down.

With a situation which was beginning to take on the trappings of a farce, the management kept, "butting in with the odd bid price, with our bid coming down as other bid prices came down." The management talked with a handful of venture capitalists before gaining the support of County NatWest Ventures and Candover Investments for the buy-out.

Mr Gee admits that several were wary of Lexterten, having seen other groups in the same sector such as MFI and Lowndes Queensway (which has since gone into receivership), suffer.

By February 1990, Lexterten's management and Era appeared to have reached agreement.

A £5.1m financing package was arranged to acquire Lexterten and provide funds to turn the business around. It comprised £3.1m of equity finance of which Era provided £1.5m in preference shares (convertible to 10 per cent of equity by 2000); £1.5m (representing 70 per cent of the equity) from County NatWest Ventures and Candover Investments; and £100,000 from Lexterten's four principal managers.

The management took over a bank debt of £2.5m at Barclays Bank and were give a £2m loan facility at County NatWest. A further company debt of just over £2m was written off by Era. Era intended to sell the shares in Lexterten to its management for a nominal £1. Era and Lexterten's management exchanged contracts. Then all hell broke loose.

An objection to the terms of the sale came from Mr David Llewellyn the founder of Lexterten. He was chairman of the company until the end of 1988. He attempted to put forward an alternative offer and led a group of Era shareholders opposed to the sale.

A circular was sent to all shareholders objecting to the proposed management buy-out and urging shareholders to vote against it.

In April, an extra-ordinary general meeting was held in which shareholders did agree to the sale. However, two Era board directors (who had supported the management buy-out) resigned and three new non-executive directors were appointed – at least one of whom was a supporter of Mr Llewellyn. Shortly after, Era's chairman, Mr Murray Gordon also resigned. All those who left the board had been former Combined English Stores executives involved in the 1987 buy-in.

Mr Gee is extremely reticent about discussing the machinations of the last months of the sale – not least of all because Era remains a shareholder. However he does admit: "It was a nail-biting time. In this situation the strings are pulled by the vendor and the controversy was all within Era. We didn't know what was happening and picked most of it up from the press."

He believes the management struck a good deal. "The real cost of the acquisition was the £2.5m debt we incurred. This sum is a considerable reduction on the initial offer of £4m but fairly represents the worth of the business given the deteriorating state of the furniture market."

The relationship with Era continues. "We've remained friends in spite of everything," says Mr Gee, choosing his words carefully.

"They're supporting us in the business we're managing. If we want help, they do give it willingly."

Since the buy-out, Mr Gee and his management team have been instigating a programme aimed at putting the company back on the road to recovery. In an attempt to substantially reduce overheads it sold one of its five factories to management for an undisclosed sum.

The factory will now act as a supplier also selling its products to other companies. The London distribution point has been closed and two factories in Broadstairs have been amalgamated. In total, 50 redundancies have been made bringing the number of employees to 430.

Mr Gee expects Lexterten to be providing profits by mid-1991. "We've got a very good team now to turn the company around," he says. Talking about past unhappy times is not something Mr Gee is particularly interested in. He has his sights firmly fixed on the future.

Hester Thomas

Charles Batchelor expects the number of public sector buy-outs to increase

Local authorities offer potential

MANAGERS in state-owned businesses and local authority departments might not fit the image of the thrusting entrepreneur but many public-sector managers have staged buy-outs in recent years. To a Government committed to a policy of privatisation and of trimming local authority influence the buy-out has proved a convenient way of disposing of unwanted public activities.

A total of 126 UK public sector buy-outs have been completed over the past decade, according to Nottingham University's Centre for Management Buy-Out Research. These include 39 buy-outs from the National Bus Company, 19 from local authorities and 12 from the National Enterprise Board (subsequently renamed the British Technology Group).

Deals have ranged from the very large and spectacularly successful employee buy-out of National Freight Corporation for £53.3m in 1982 (floated six years later at a valuation of £890m) to more modest deals involving the refuse collection and street cleaning services of a number of local boroughs.

While the mid-1980s were dominated by disposals of the bus companies and the non-core businesses of state-owned groups such as BL/Austin Rover, British Steel and British Shipbuilders, the end of the decade saw a shift in emphasis to disposals of local authority services.

From the peak year in 1986, when public sector buy-outs accounted for 11.6 per cent of all buy-out deals by value, they had fallen back to just 2 per cent in 1989, reflecting the shift to smaller local authority deals. But with the potential for local authority buy-outs barely touched by the 19 deals recorded to date the likelihood is that numbers and values will once again increase.

Local authority buy-outs face a number of problems

However, local authority buy-outs face a number of problems in addition to those which confront a deal involving a commercial company.

There is likely to be a greater culture shock for managers because the people who go into the public service sector are not usually motivated by profits and have for the most part no experience of working in a commercial environment.

Some local authority departments have effectively one contract with one customer so lack the breadth of business needed to operate as an independent company. Working practices may need to be radically altered and the workforce may have to be cut.

Just as some of the early buy-outs prompted charges that public assets were being sold off too cheaply some of the more recent deals have aroused concerns that community charge payers' interests were not being adequately protected. The slow build-up in the numbers of local authority buy-outs reflects the sensitivity of transactions in this sector, says the Nottingham Buy-Out Centre.

Great care must be taken in ensuring that the public interest is protected both in terms of the price which the buy-out team pays for the business and in the quality of service provided when the local authority remains a customer of the bought-out company, it said.

The public interest can be protected by ensuring competitive bidding; "ratchets" which mean the price paid is dependent on performance; retained equity stakes; and by limiting the duration of commercial contracts, said Mr Mike Wright of the Buy-Out Centre.

Two recent reports have* highlighted the concerns which have been aroused by the growth in local authority *buy-outs in particular.*

Unless the buy-out is carefully handled it may bring substantial rewards to managers at the community charge payers' expense, the Audit Commission for Local Authorities in England and Wales, warned in January.

Pitfalls identified by the commission were:

- Members of the buy-out team might be involved in specifying contracts and evaluating tenders while at the same time they were potential bidders for the authority's contracts.

Officials must not both prepare a bid and evaluate it

- The local authority must obtain an independent valuation of any assets being sold and the transfer must take place at market value
- The authority must treat buy-out companies as they would any private sector contractor. If it awarded contracts without a tender it must be able to show this was in the interest of the community chargepayers and should restrict most contracts to one or two years
- Local authorities should guard against allowing staff paid time off and access to central support services to organise a buy-out.

These recommendations were given further weight by a National Audit Office report on the privatisation of work in three new town corporations: Milton Keynes, Telford and Warrington/Runcorn.

It was commonplace for buy-out companies to be awarded contracts without competitive tendering, the audit office said. The corporations had a good reason for this – they wanted to retain access to skilled staff while they were being wound down – but it did expose them to possible allegations of impropriety, the audit office warned.

In addition, it was impossible to assess whether contracting out had led to a lowering of costs, the audit office said. It urged the Department of the Environment to issue guidelines to apply in any further privatisation programmes.

Just what can go wrong if care is not exercised when local authority managers buy out council services is graphically illustrated in recent buy-outs of West Wiltshire District Council's computer software and legal services activities.

Both these areas of activity have since been taken back by the council following a report by the local district auditor which showed no independent valuations had been made of these businesses while legal services were costing the council substantially more than before the buy-out.

But for all the concerns at the increasing number of local authority buy-outs, in general the buy-out is an efficient way of disposing of public sector businesses, according to a study* of buy-outs from the National Bus Company.

The bought-out companies were able to modify the way they were organised; bought more appropriate fleet vehicles and purchased fuel locally at lower costs.

Working practices may need to be altered and the workforce cut

They had diversified into related areas of travel and leisure and had adopted more flexible pay schemes needed to meet increased competition. Convincing evidence, it would appear, that public sector managers can adapt to the commercial world.

**Management Buy-Outs: Public Interest or Private Gain? HMSO £3.50;*
Privatisation of work in New Town bodies in England, HMSO £5.45;
The Progress of National Bus Buy-Outs: M. Wright and C. Mulley (1989).

The mid-1980s were dominated by disposals of state-owned groups such as BL/Austin Rover

Leading Mezzanine Arrangers

	Deals arranged 1981/86	1987/88	1989/90	Total	Total value £m	No. of Investments
3i	4	9	8	21	223	29
Bankers Trust	1	4	5	10	304	11
County NatWest/Nat West		4	5	9	95	20
Barclays/BZW	1	5	2	8	77	17
SecPac/SPHG		3	4	7	50	9
Intermediate Capital			6	6	48	10
Phildrew			6	6	20	6
PIC Capital	2	1	1	4	189	4
Kleinwort Benson		1	3	4	21	8
Standard Chartered/CWB		2	2	4	439	6
GE Capital		1	2	3	580	4
Bank of Boston	1	1	1	3	15	6
CIBC		1	2	3	5	5
Elders Finance			2	2	22	2
First Brittania			2	2	16	4
Citicorp		1	1	2	15	3
Samuel Montagu			2	2	13	3
Lloyds	1			1	40	4
Westpac			1	1	5	4
Bank of Scotland			1	1	4	7
Creditanstalt Bankverein			1	1	4	6
Legal & General/Mithras						7
Prudential						4
Others	1	5	4	10	144	
None/not known/(duplication)	1		(2)	(1)	(589)	
	12	38	59	109	1,740	

Qualification: 2 deals arranged or 4 investments

Source: KPMG Peat Marwick McLintock
15th August, 1990

UK PUBLIC SECTOR BUY-OUTS AND BUY-INS TO JUNE 1990

Source	Number
British Aerospace	1
BL/Austin Rover	13
British Rail	6
British Shipbuilders	11
British Steel	10
BTG/NEB	12
National Bus Company	39
NFC	1
Scottish Bus Group	1
Local Authorities'	19
Other buy-outs	9
Buy-ins	4
TOTAL	126

'Includes authority-owned bus companies.
Source: CMBOR

MANAGEMENT BUY-OUTS 6

PROFILE: Kosset

The inside view

MANAGEMENT buy-outs from receivers are still fairly unusual, but they are likely to become increasingly common as the storm clouds gather over the British economy.

Kosset Carpets, the Bradford-based carpet manufacturer, has recently been sold to management for just under £20m by the receivers of Coloroll, the home products group which collapsed with debts of £m in June.

The receivers have also sold Staffordshire Tableware, comprising the stricken group's ceramics companies, to management for £20m and received between £5m to £10m for Coloroll's Denby division, which makes tableware, in a third MBO.

The Kosset management have acquired the company in a buy-out package worth £17m. Phildrew Ventures Fund, which organised the deal, put in £7m of equity and Bank of Scotland supplied £8.5m of debt. The package also included £1.5m of leasing facilities.

Mr Frank Neale, a partner in Phildrew Ventures, says of this sort of deal: "The big difference is that you have to move fast, because a business in receivership starts to deteriorate very quickly.

Mr Bill Roberts and Mr Nigel Young, of the accountancy firm Ernst & Young, are the Coloroll receivers. Mr Roberts says: "One starts on the assumption that there is an ongoing business and that there must be the possibility that someone will want to buy it on a going-concern basis.

"Management enjoy no special advantage. We have wide and long experience of assessing the value of assets and businesses. Sometimes they have an inside track on information to give their financial advisers, which means they can table an offer early. But we would tend to put such an offer on the back-burner until outside parties could also make an offer.

"Ultimately the decision comes down to price, although we do have some regard to the effects on the continuing business for debtors."

Mr Roberts says the Kosset management approached them: "We don't treat management differently from any outside party. Gradually we whittle the list down to two or three buyers."

Mr Simon Mallalieu, sales and marketing director of Kosset, agrees that the management team did not feel at any great advantage: "We didn't know if there were any other offers around. The receiver did a very good job for the bank – we were certainly made to feel there was."

Mr Neale points to a particular disadvantage of a receivership from the point of view of venture capital houses, arising from the fact that the receivers refuse to favour any one buyer.

He says: "Normally in an MBO we can obtain an exclusive period of three to four weeks when one can incur legal and other fees. In this situation, you can get pipped at the post at the last minute by someone offering £10 more. We spent over £100,000 on legal and accountancy fees – with no comeback if our offer had failed.

"We therefore only go into a receivership situation when we are fairly confident we are going to win. Normally were are happy with one chance in three or four, but in receiverships, you have to be very confident."

Such deals are not all gloom and doom, however. Mr Mallalieu points to one possible advantage: "We were fortunate in timing in that we are buying when these consumer markets are absolutely at the bottom of their cycles.

"That may have scared off other competitors, some of whom have problems not much better than Coloroll's!"

Mr Neale concedes that there is some stigma attached to receivership, which is one reason for moving fast. But he says most people realise that it is the wider group that has failed.

Mr Mallalieu is certainly confident that Kosset, which he describes as the best-known brand-name in British carpets, is strong enough to shrug off any stigma from the receivership. He says: "We have only been with Coloroll for two years. As soon as the Coloroll badge comes off, we feel we will be in clear waters."

But how do managers react, when they feel their parent group is heading for the rocks?

Mr Mallalieu says: "It is a very difficult situation, which could obviously raise severe difficulties. Fortunately for us, it was clear that the best thing for both Kosset and Coloroll was for us to keep our heads down and keep running the business.

"The receivership caused a deep sense of shock, if not surprise. I have never gone through that process before and I never want to again."

Mr Neale points to another complication for a business emerging from receivership: "We have to assume that some creditors will feel bruised and be very reluctant to extend credit. Instead of giving the usual 45-60 days, they may insist on being paid up-front. That makes it difficult to work out initial financing needs."

"Another thing you can't get from a receiver is any warranties or indemnities. Receivers will give no assurances – not even that they own the assets they are selling."

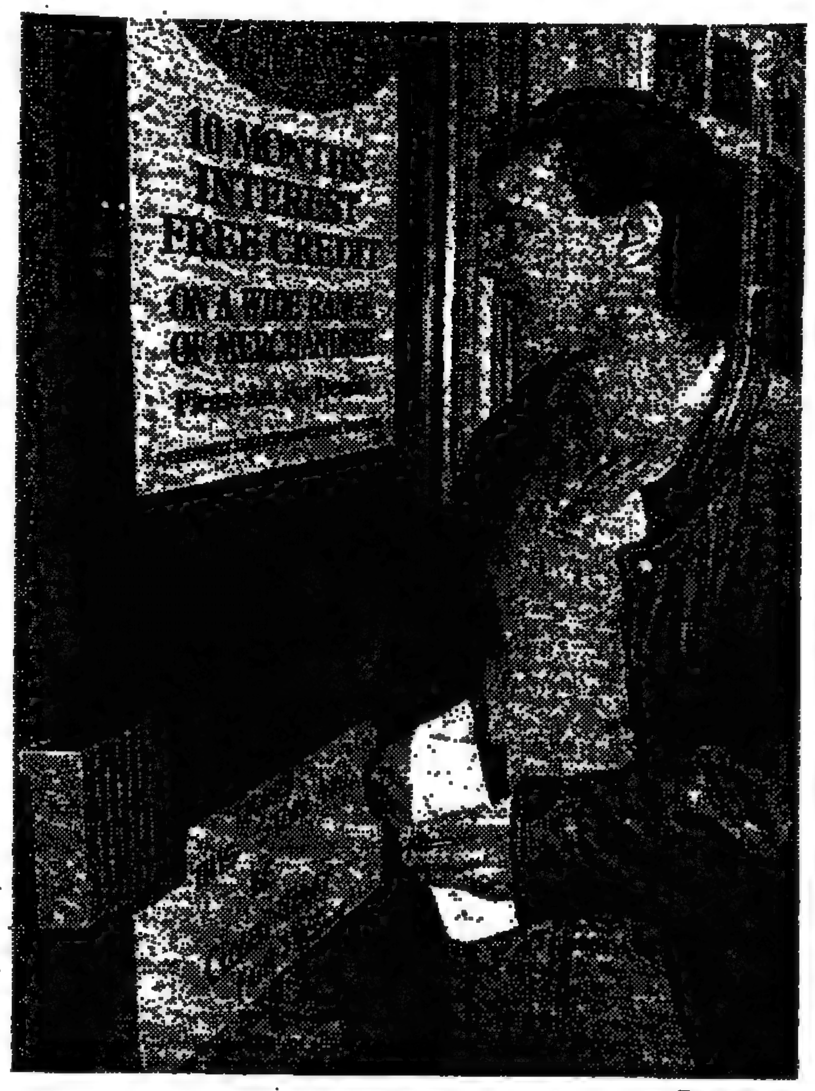
Because of these uncertainties, the Kosset buy-out package includes £5.5m of working capital.

The debt to equity ratio is therefore very low. Mr Neale contends: "Buy-outs are getting back to the basics learned in the early 1980s. The transaction is not highly leveraged, unlike the fashion of recent years."

The perils of the current climate were vividly illustrated last month when Lowndes Queensway, the furniture and carpets retailer to which Kosset is a supplier, collapsed with debts of £200m.

Why, then, are management teams and venture capitalists attracted to receivership situations?

Mr Neale points to the simple fact that the Kosset team paid just under £10m for assets which were in Coloroll's books at £20m. He concludes: "You can get a much better deal working directly with the receiver, but there are much higher risks."



Tony Andrews

Lowndes Queensway, the furniture and carpets retailer to which Kosset is a supplier, collapsed with debts of £200m.

Deal Leaders

	Number of deals led				Value	Average	Address	Phone number
	1981/86	1987/88	1989/90	Total	£m	Value £m		
3i	10	11	7	28	1,010	36	91 Waterloo Road, London, SE1 8XP	071-928 3131
Candover Investments	9	7	6	22	1,452	66	8-9 East Harding Street, London, EC4A 3AS	071-583 5090
Citicorp	9	3	8	20	574	29	Cottons Centre, Hays Lane, London, SE1 2QT	071-234 5678
Charterhouse DC	6	9	3	18	2,636	146	7 Ludgate Broadway, London, EC4V 6DX	071-248 4000
County NatWest Ventures	1	9	4	14	545	39	135 Bishopsgate, London, EC2M 3UR	071-375 5000
Bankers Trust	3	5	5	13	1,725	133	1 Appold Street, Broadgate, London, EC2A 2HE	071-982 2500
Schroder Ventures	3	6	3	12	440	37	20 Southampton Street, London, WC2E 7QG	071-379 5010
Midland Montagu	2	6	2	10	656	66	10 Lower Thames Street, London, EC3R 6AE	071-260 9911
Phildrew Ventures		1	9	10	301	30	14 Finsbury Square, London, EC2A 1PD	071-628 6366
Granville	3	3	4	10	145	15	77 Mansell Street, London, E1 8AF	071-488 1212
Electra	3	5	1	9	1,010	112	65 Kingsway, London, WC2B 6QI	071-831 6464
Kleinwort Benson DC	2	2	5	9	518	58	10 Fenchurch Street, London, EC3M 3LB	071-956 6600
Barclays DC/BZW	3	4	2	9	271	30	Pickfords Wharf, Clink Street, London, SE1 9DG	071-407 2389
CIN VM	3	1	3	7	997	142	Hobart House, Grosvenor Place, London, SW1X 7AD	071-245 6911
Lloyds DC	4		3	7	392	56	40-66 Queen Victoria Street, London, EC4P 4EL	071-236 4940
MIM DC		1	4	5	121	24	11 Devonshire Square, London, EC2M 4YR	071-626 3434
Prudential VM	3		1	4	342	86	Audrey House, Ely Place, London, EC1N 6SN	071-831 7747
Scandinavian Bank	2		2	4	77	19	2/8 Cannon Street, London, EC4M 6XX	071-236 6090
Mercury Asset Management		2	1	3	2,617	872	33 King William Street, London, EC4R 9AS	071-280 2800
Chase Manhattan	1	1	1	3	191	64	Woolgate House, Coleman Street, London, EC2P 2HD	071-726 5000
Morgan Grenfell	1		2	3	109	36	23 Great Winchester Street, London, EC2P 2AX	071-588 4545
Salomon		1	2	3	80	27	111 Buckingham Palace Road, London, SW1W 0SB	071-721 2000
Causeway Capital	1	1	1	3	57	22	7 Hanover Square, London, W1R 9HE	071-495 2525
CIBC Capital		1	2	3	50	17	Cottons Centre, Cottons Lane, London, SE1 2QL	071-234 6000
Murray Johnstone		2	1	3	40	13	7 West Nile Street, Glasgow, G1 2PX	041-226 3131
Baring Capital Investors		1	1	2	449	225	140 Park Lane, London, W1Y 3AA	071-408 1282
Hambro Magan			2	2	292	146	32 Queen Anne's Gate, London, SW1H 9AB	071-233 1400
Fleming		2		2	127	64	25 Copthall Avenue, London, EC2R 7DR	071-638 5858
APA/MMG Patricof			2	2	95	48	24 Upper Brook Street, London, W1Y 1PD	071-872 0017
SPHG Equity Ventures		2		2	68	34	4 Broadgate, London, EC2M 7LE	071-374 1798
Edinburgh Financial Trust		1	1	2	59	30	14 Melville Street, Edinburgh, EH3 7NS	071-226 4814
James Capel		1	1	2	58	29	7 Devonshire Square, London, EC2M 4HU	071-283 5230
Bank of Boston	1	1		2	54	27	39 Victoria Street, Westminster, London, SW1H 0ED	071-799 3333
Globe Inv. Trust		1	1	2	53	27	4 Temple Place, London, WC2R 3HP	071-836 7766
Unity Trust		1	1	2	33	17	9 Prescot Street, London, E1 8BD	071-481 3110
SUMIT	1	1		2	32	16	12 Newhall Street, Birmingham, B3 3ER	021-200 2244
Foreign & Colonial Ventures	1		1	2	26	13	6 Laurence Pountney Hill, London, EC4R 0BA	071-782 9829
Gartmore			2	2	20	10	2-3 White Hart Yard, London, SE1 1NX	071-782 2000
Guidehouse	2			2	19	10	8-13 Chiswell Street, London, EC1Y 4UP	071-628 5858
Leaders of one deal only	7	6	13	26	1,465	56		
None/not known	8	3	11	22	775	35		
Eliminate joint deal leaders	(14)	(13)	(10)	(37)	(2,491)			
	75	88	108	271	17,500	65		

The following institutions have been leaders of one deal only: Baker Fentress, Baronsmead, British Linen, Close, Creditanstalt Bankverein, Drexel Burnham Lambert, Financere Indosuez, GE Capital, Grosvenor, Hambro European, Hill Samuel, Lowe Finance, Manchester Exchange Trust, Marsden W Hargreave Hale, Marshall, Merrill Lynch, Norwich Union, Price Waterhouse, Rothschild, Saudi Arabian Investors, Shearson Lehman, Standard Chartered, Warburg Securities, Wasserstein Perella, Westpac.

Source: KPMG Peat Marwick McLintock
15th August, 1990

Elisabeth Tacey says buy-ins are the in thing, but there are differing views on whether the trend will continue

Caution takes hold

WHEN COMPARING data on buy-outs with that on buy-ins, it seems that the outs are out and the ins in. But finance houses and industry watchers differ on whether that trend will continue.

Figures published by the Centre for Management Buy-out Research, based at Nottingham University, show that as the number of buy-ins in the UK has risen sharply, that of buy-outs have dropped. In 1989, the number of MBOs fell for the first time since 1983,

The buy-in has become accepted as a vehicle for restructuring

from 372 to 357; the number of MBIs rose by a third, from 110 in 1988 to 147. The value of MBIs trebled, from £1.2bn to £3.6bn, although this figure is distorted by the inclusion of the £2.4bn deal by Isosceles for supermarket group Gateway. The value of MBOs rose, but only by 5 per cent to £3.9bn.

In the fourth quarter of 1989 the number of buy-outs, 73, was at its lowest since the last quarter of 1986, while the number of buy-ins, at 47, was a record, the previous high in a quarter being 40 in the second quarter last year.

For 1989, most of the UK buy-ins, 118, were of privately owned businesses, up by 44 per cent, while those of publicly quoted companies increased by only one to 29. And a breakdown by region shows that, like buy-outs, interest in buy-ins is growing in the north: Yorkshire and Humberside together took 13 per cent of the buy-ins in 1989 compared with 4 per cent in 1987, and the north-west took 18 per cent in 1989 against 6.5 per cent in 1987.

The numbers are "clear signs that the buy-in has become more accepted as a vehicle for corporate restructuring," says the centre's 1989 report.

However, Mr Ken Robbie of the centre says: "This year the pace of buy-ins has faltered." He puts this down to the economic climate, particularly as the buy-in is more risky than a buy-out: "The buy-in managers tend to be more orientated to their own capital gain, and want to increase their personal wealth as much as possible. They try to create a much larger group than in the buy-out situation, and may try to expand too quickly." He reckons that finance houses will be more cautious to fund such ventures, with recent buy-in disasters such as the collapse of furniture retailer Lowndes Queensway fresh in their minds.

Mr Patrick Dunne of venture capital group 3i, the largest supplier of buy-in funds in the UK, says: "I think the general slowdown in the economy will translate itself into more opportunities for buy-ins." The firm set out about 18 months ago to sign up a group of 200 managers keen to stage buy-ins, and was vastly oversubscribed. Of the 200 they chose, a "significant number" – more than 20 per cent, according to another 3i executive, Mr David Thorp – are running their own businesses, either through

In the year to March, 3i funded 64 buy-ins of total value of £97m

buy-ins or starting up themselves, and 3i was involved in more than half.

The list idea was aimed at giving 3i a high profile as a buy-in group. It has worked, says Mr Dunne: "We are getting approached by managers of companies to do buy-ins all the time."

He reckons buy-ins could be in favour partly because acquisitions have become more difficult for large companies, so they are not snapping up the smaller ones; and large conglomerates are tending to focus more on their core businesses and sell off peripheral units, which are usually sound businesses ripe for buying into. Also, as business slows, managers will become more frustrated about their career moves, he thinks.

In the year to March 1990, 3i funded 64 buy-ins of total value of £97m, a rise of 50 per cent on the 42 buy-ins completed in 1988.

In contrast, Ms Anthea Skilbeck, an executive of a division of Charterhouse Bank, Charterhouse Development Capital – which she describes as "conventional" – says the firm is cautious about buy-ins. She says it prefers to go for buy-outs which are less risky because the managers know the business and are less inclined to take the profits and run.

She thinks that the increase in the number of buy-ins may partly be due to firms which have money to invest turning to the buy-in market while that of buy-outs is a bit flat due to the economic downturn. And a spate of buy-out failures can be a source of buy-ins. But she expects firms to turn back to buy-outs once the opportunities return.

"When buy-outs are on the rise you'll probably find that buy-ins are not." She points out that in a recessive economy, "one has to get companies at sensible prices" to do both buy-outs and buy-ins.

At Candover Investments, the second biggest UK buy-out and buy-in arranger after 3i and the only quoted MBO specialist, chief executive Mr Roger Brooke agrees that sensible prices are needed in the present economic climate. But he is more upbeat about it: "People are being a bit more cautious, but some people are being more realistic about price ... It has become a buyer's market – a big change from a year ago."

Candover has just completed its biggest deal this year, help-

Sensible prices are needed in the present economic climate.

ing Mr Robert Jarvis to buy Embassy Hotels from Allied-Lyons for £193m to become Jarvis Hotels. Candover put in about £49m from its £319m fund, set up in 1989 for buy-outs and buy-ins. The fund was hugely successful, aiming at first for £200m and being enlarged to cope with the number of finance houses wanting to join. Mr Brooke reckons that the greater realism is a good thing: "We have done more deals in the first six months of this year than we did in the whole of last."

Mr Brooke thinks there are more people keen to carry out buy-outs and buy-ins, having "seen all their friends doing it." He laments a lack of "top-notch" people, while also pointing out that it is a difficult step to take, partly because managers wanting to do buy-ins have to disclose their intention to leave their present job before they have got the buy-in target. This can prove awkward in their present position should the deal fall through.

Another arm of Charterhouse Bank, Charterhouse European Partners, has a £100m fund for buy-ins and buy-outs set up in 1989 and concentrating on continental Europe, where Mr Robbie of the CMBOR says that at present "there aren't that many. In Italy MBIs are important, there are a few in France and one or two in the low countries, but that's about it."

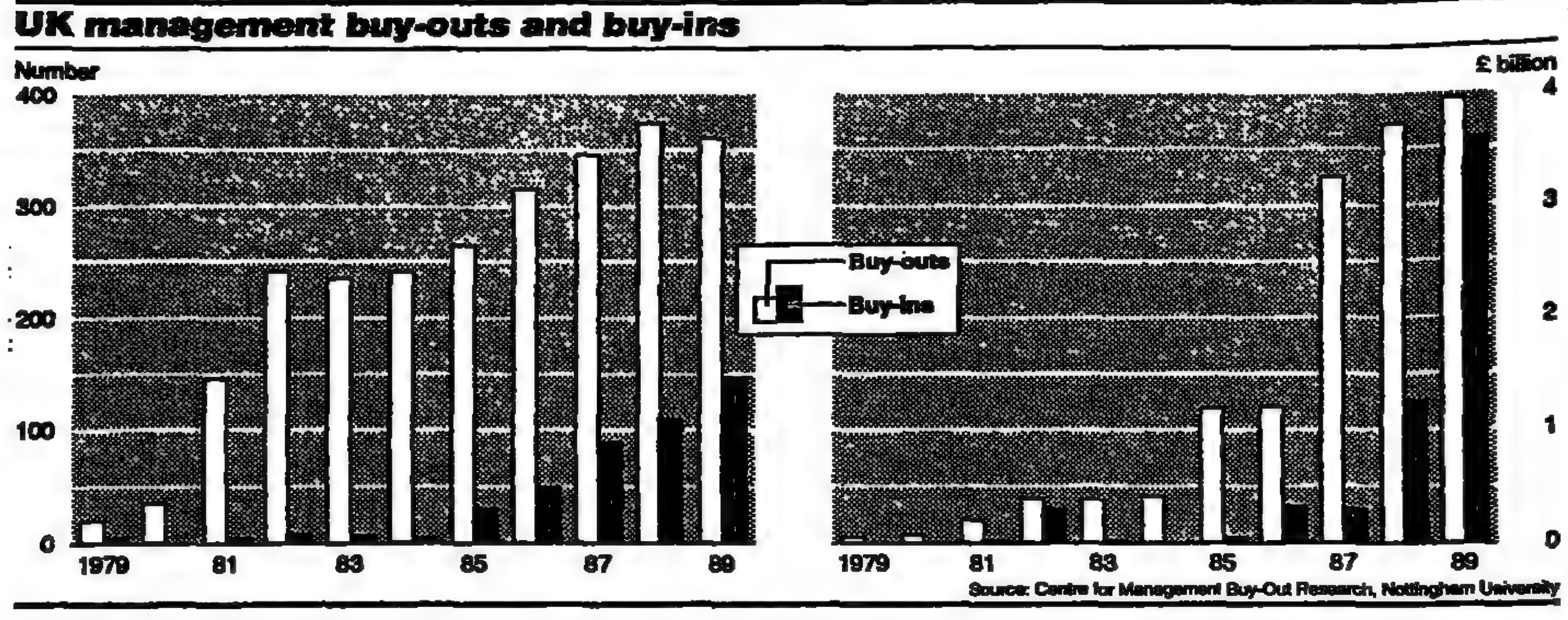
Buy-ins may be in in the UK, but in the rest of Europe they are still out.

Management Buy-Ins 1982/90 (TOTAL FUNDING £M)

£m	1982/84	1985	1986	1987	1988	1989	1990 (to date)
Under 25		Cullens(10)	Acal(10)	Life Sciences Int(11) New Scotland Ins(15)	Burn Stewart(13) Autoclenz(13) Clairmont(14) European Brands(21)	Range Valley(11) Abacus(11) Maison Caurette(11) Haigh Castle(12) Ratcliffs(13) Country Casuals(14) Valor Stoves(14) British Air Ferries(15) Hill Leigh(15) Exide Batteries(18) Britannia Data Mgt(18) Service Tec(20) Themes Int(22) Rubatex(22) Hamleys(24)	Wilcox(10) Juliana Sound(11) E. Lancs Paper Mill(11) Betta Stores(16) Wimpy(20)
25-50			Gillow(45)	Raleigh(42)	FJC Lilley(27) Needwood(38)	Beacon(29) Court Cavendish(35)	Ravenhead(27) United News Shops(33) Walter Alexander(42) David Brown(46)
50-100				Utd Precision Ind(76)	Financial Ins(55) Lewis's(74)	Crockfords(53) Square Grip(65) James Neill(79)	
100+	Kingfisher(310)				Cope Allman(265) Lowndes Queensway(450)	Gateway(2,375)	Jarvis Hotels(215)

Source: KPMG Peat Marwick McLintock 15th August, 1990

UK management buy-outs and buy-ins



Source: Centre for Management Buy-Out Research, Nottingham University

Glyn Genin

The collapse of the $6.79bn United Airlines MBO, after Japanese banks refused to take part, has been widely cited as a watershed

Nikki Tait analyses the changes in the US scene

Enthusiasm gives way to a new-found puritanism

THE US seldom does anything by halves. Just as the US financial community embraced the leveraged buy-out tool with increasing enthusiasm throughout the late 1980s, so it is watching the decline in LBOs with new-found puritanism.

Some simple figures show how the trend has changed. During the period from 1984 to 1989, some $250bn-worth of leveraged buy-outs took place, including the record-breaking $25bn purchase of RJR Nabisco by Kolhberg, Kravis & Roberts, the LBO specialists. That represented well over 1,000 corporate situations and the annual level of funding going into leveraged acquisitions was reckoned to be running at over $100bn by the end of the decade.

This year, LBO activity has dwindled from these levels. According to figures just published by Venture Economics, there were just 51 LBO deals completed during the first six months of 1990, compared with 154 in the same period a year earlier. The fall in the value of deals was even larger; down from $24bn to $7bn.

Only one transaction – the sale of Del Monte's canning operations - topped $1bn. Moreover, this decline has been mirrored – even foreshadowed – by the downturn in the size of the pools of new capital being committed to the LBO movement. On this latter score, the zenith came in 1987, when some $13bn was raised. The figure fell away significantly in 1988 and totalled little more than half that amount in 1989.

The management buy-out of United Airlines, originally planned as a $6.79bn transaction, has been widely cited as the watershed deal. When Japanese banks refused to participate in the transaction last November, they triggered a sharp stock market fall, as Wall Street surmised that the LBO game – and, by implication, a large part of the bid scene generally – had died.

After all, the LBO movement was heavily dependant on the banks' willingness to lend on such transactions, and Japanese banks ranked second only to US institutions in their enthusiasm for the US LBO market. At the time of the initial UAL collapse, Japanese banks were reckoned to have some $20bn invested in outstanding LBO loans with a further $35bn of loan commitments. The figures for the US banks were $45bn and $72bn respectively.

There were just 51 leveraged buy-out deals completed during the first six months of 1990, compared with 154 in the same period a year earlier

In retrospect, UAL is perhaps more properly seen as a manifestation of the declining enthusiasm for LBO deals, rather than the point at which the tap suddenly turned off. There had been signs of deals going sour before October 1989 – not least, the celebrated Federated/Allied Stores fiasco.

Moreover, recessionary threats to the economy were becoming evident – making the cash-flow projections on which leveraged structures depend more questionable. Relatively high interest rates have been little help, either.

To the extent, then, that deals have kept coming, their structures have tended to be more conservative, employing more equity or, to a lesser extent, mezzanine funding, relative to the level of debt.

According to a survey conducted by Russell Reynolds amongst 100-plus LBO firms at the turn of the year, almost half saw their equity investments amounting to something between 11-25 per cent of the purchase price of deals done last year. In 1988, by contrast, 57 per cent of the firms surveyed said that their equity investment representing six to 10 per cent of the total price.

This belated caution has even been reflected in a trend towards reverse LBOs. Never slow to miss a trick, Wall Street has realised the potential for refinancing distressed LBOs, so that some of the debt element is replaced by additional equity.

One prominant New York-based player, Forstmann Little, which was heavily critical of the LBO movement's worst excesses, even made efforts to raise a $3bn-$4bn fund specifically for this purpose. The attempt was eventually called to a halt in March, after sufficient funds failed to materialise, although there were suggestions that it might be revived later.

The trend towards restructurings, which replace debt by equity in troubled situations shows little sign of abating, however.

The other discernable feature of the LBO movement is a shifting down in the size of deals completed. To some extent, the much-publicised "mega" LBO ($1bn-plus) has always been the exception rather than the rule; in terms of the number of buy-outs between 1984-89, this class accounted for only 4.4 per cent, while deals under the $50m-mark accounted for almost half the activity.

This picture has become even more marked recently. According to Venture Economics, 28 of the 51 transactions completed in the current year involved deals below the $50m-level. Virtually all the rest fell into the $50m-$100m category. As with the UK, this new-found conservatism appears to have returned the LBO movement to its roots – such as the funding of managements' attempt to buy out peripheral subsidiaries of diversified groups.

All this is probably in managements' interests. It is noticeable that in the US – in contrast to the UK and Europe generally – the term management buy-out had virtually disappeared, being subsumed into the broader category of leveraged buy-out.

This reflected the dominance of the funding structure, with the institutional providers of money often playing a more significant role than the management teams involved in such transactions.

However, as caution becomes the new watchword, this too may change. Who knows, as the LBO funding polls contract and there is a general return to basics, the players who are really at the centre of the action may yet win back a greater slice of the action.

Comparison of Listed and Unlisted MBOs over £10M

	Number			Value (£m)		
	Total	Listed	%	Total	Listed	%
1981-84	24	1	4	850	310	36
1985	24	2	8	880	70	8
1986	27	2	7	940	40	4
1987	33	4	12	2,750	490	18
1988	55	6	11	4,510	940	21
1989	71	12	17	5,850	3,780	65
1990 (to date)	37	3	8	1,720	150	9
	271	30	11	17,500	5,780	33

Source: KPMG Peat Marwick McLintock
15th August, 1990

Analysis of Gearing by Period

Period	Total funding £m	Equity £m	Mezzanine £m	Debt £m	Gearing (E:M+D)	Mezzanine (% of total)
1/81-12/84	850	370		480	1.3	
1/85-11/88	8,430	2,430	600	5,400	2.5	7
12/88-7/89	5,420	850	830	3,740	5.4	15
8/89-8/90	2,800	790	310	1,700	2.5	11
	17,500	4,440	1,740	11,320	2.9	10

Source: KPMG Peat Marwick McLintock
15th August, 1990

Charles Batchelor on moves to reduce conflicts of interest

Specialists fear changes have made life too tough

HAS THE clamp-down on management buy-out teams gone too far? The Takeover Panel has tightened its code to address the problem of the conflicts of interest which arise when managers bid for the company they run, but some buy-out specialists believe the changes may have made life too tough for management teams.

When buy-outs involved only private companies, where ownership was synonymous with management, and when large companies were auctioning off subsidiaries or divisions, there was no real chance of managers pulling the wool over shareholders' eyes. But once buy-outs for public companies began to take place in significant numbers in 1988-89, conflict of interest became an important issue.

How could managers forecast a glowing future for the business once they became owners if they could not deliver the same performance when it belonged to somebody else? Managers could only be so bullish about their company, critical City institutions argued, if they were taking unfair advantage of access to information not available to outside shareholders.

As the people most closely involved in the running of the business, managers clearly have access to much more detailed information than non-executive directors or outside shareholders. But are they misusing their knowledge?

When the managers of Magnet, the fitted furniture retailer, launched a £629m buy-out offer last year, shareholder dissatisfaction centred on the value of the terms for the company's preference shares. But it hinged on the issue of whether shareholders had enough information to make an informed judgement of the bid.

In the middle of the Magnet bid, the National Association of Pension Funds published a discussion paper suggesting that the information which was available to the management should also be made available to shareholders.

It recommended that the buy-out team should make known its forecasts for profits and return on capital for a minimum of three years and that buy-out offers should contain terms which allowed the price to be adjusted to the performance of the company in relation to the forecasts.

Finally, the association called for the appointment of a special "adviser to shareholders" whose duty would be to report on the fairness of the terms proposed. This was intended to alleviate the difficult position of the non-executive directors.

Managers have access to detailed information . . . but are they misusing their knowledge?

Last December, in response to this discussion paper and talks with other groups of institutions, the Takeover Panel, which regulates acquisitions and mergers, made four amendments to its code. It stated:

- that the target company's board should appoint an independent adviser as soon as possible
- that the buy-out team should supply the independent directors and their advisers with all the information which had been made available to the bidders' own financiers or potential financiers
- that information given to outside providers of finance should be available to other potential bidders
- that a director should not express his or her views on the offer if he was to have any continuing role, either executive or non-executive, in the bidding team or the target company because of the conflict of interest which would arise.

These changes did not go as far as the pension funds and some others wanted. Information was not to go directly to all shareholders; there was to be no requirement for three-year forecasts and there was to be no adjustment of the buy-out price to take account of performance.

Nevertheless, they did add to the pressures on the buy-out team. It is possible, for example, that by revealing their projections of future performance they may push up the value of the company against themselves. Shareholders might demand a higher price if they saw optimistic projections of future performance or they might demand that managers achieve similar results without carrying out a buy-out.

"The changes to the Takeover Code make it more difficult for advisers to give added value to the management team," says Mr Michael Proudlock, head of development capital at Granville & Co, an investment bank. "The added value (of our advice) is on display for all to see." Mr Proudlock believes that one buy-out in which he was involved did not go ahead partly because the management team would have had to disclose details of its plans.

Other buy-out specialists believe that the requirement to provide information to rival bidders is particularly harsh. "It is possible for managers to make a very different forecast on the basis of the company being a private company compared with what they would forecast for a public company," comments Mr Robert Smith, chief executive of Morgan Grenfell Development Capital.

The buy-out team would be at a disadvantage since any rival bidders would not have to disclose their plans, he adds.

The belief that managers are automatically in a privileged position because they have detailed knowledge of their company has also received a knock from the problems encountered by Magnet and a number of other buy-outs. "Magnet showed that managers can get it wrong too," says Mr Roger Brooke, chief executive of Candover Investments.

Even before changes to the Takeover Code, management teams and their advisers who wanted to reach an amicable agreement with the independent executives and shareholders would answer any questions put to them by the vendor's advisers, buy-out specialists say.

Vendors have also increasingly been retaining stakes in the businesses they sell to buy-out teams. This guarantees the vendor a stake in any future success of the company and acts as a partial insurance against the risk that the vendor has under-estimated the business's potential.

Much of the emotion generated last year by the management buy-out of Magnet has cooled. High interest rates have temporarily halted buy-outs of public companies while the trading problems at Magnet, which have shown that managers do not always have all of the answers, have put the issue in a new perspective.

The full impact of the tighter Takeover Code will only become apparent if, as many deal-makers forecast, public company buy-outs come back into fashion. It will then be possible to assess whether the changes have stacked the odds against buy-out teams or whether they are a sensible solution to inevitable conflicts of interest.

THE PLAYERS

Flow of new entrants slows

THE PROBLEMS which have beset the management buy-out sector over the past 18 months have stemmed the rush of new entrants to the market. Nevertheless there are enough players on the scene to provide any management team intent on a buy-out with a confusing wealth of choice.

Venture capitalists, merchant bankers, accountants and specialist investment trusts will all supply advice and funding to management teams. Some of these organisations are large enough to finance deals in their entirety - providing equity, loans and, if necessary, mezzanine funds from their own resources. Most will then subsequently syndicate parts of the deal to other financial groups to spread their risks.

Others will lack the resources to take everything on to their own books from the outset but will put together a team of financing institutions to jointly fund the deal.

While every organisation is keen to stress the uniqueness of its own approach to financing deals the initial if rather crude criterion on which the managers should base their choice is size.

Some financiers are geared up to backing small deals while others do not consider it worth their while to spend time on buy-outs worth less than say £10m or £20m.

Even size is not an absolute method of selecting a backer since some organisations, Candover Investments and Morgan Grenfell Development Capital among them, have or are raising special funds to back small deals alongside their larger funds which back the bigger transactions.

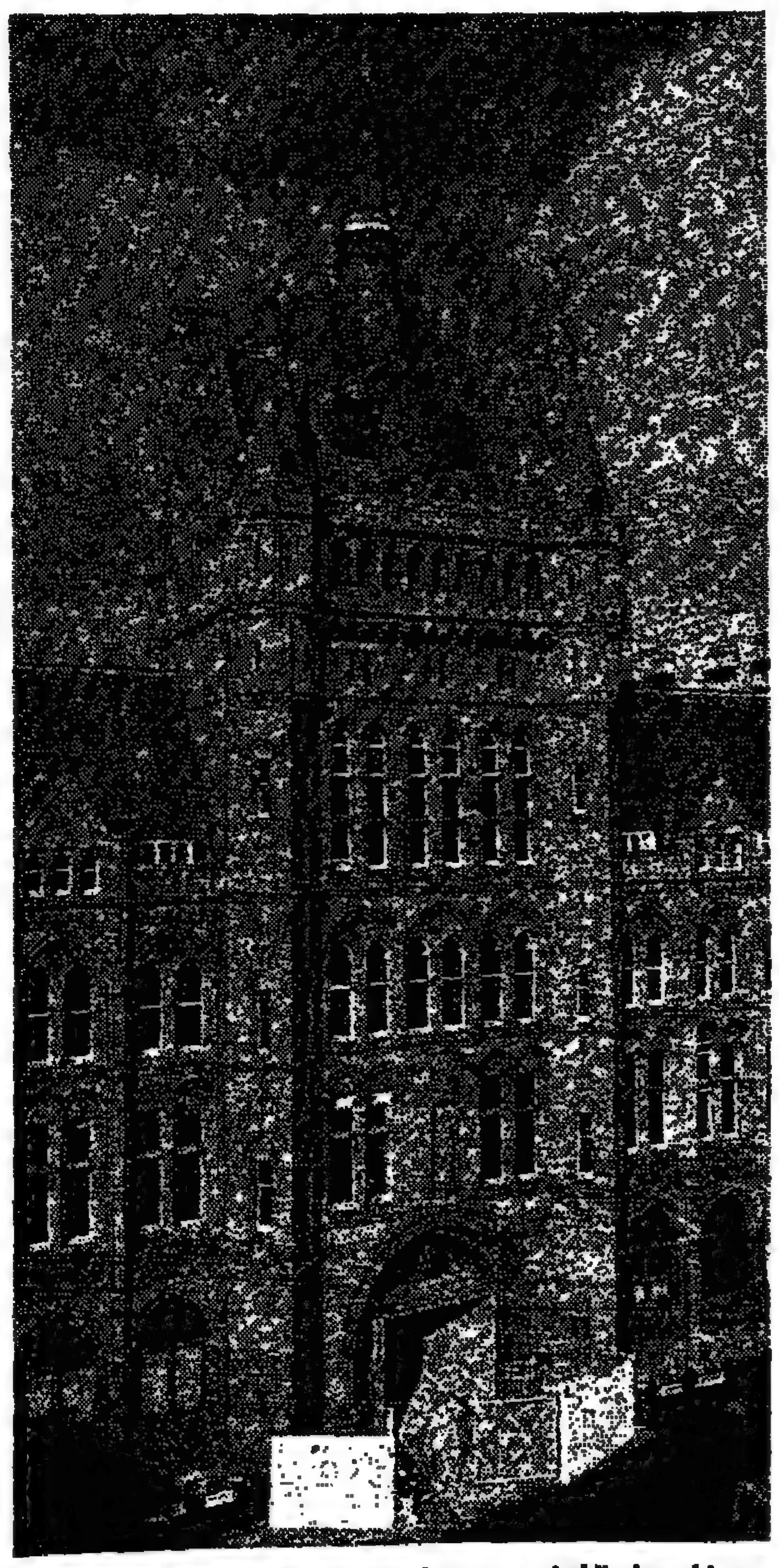
For management teams based outside the south-east of England a regional fund specialising in their area may be the most appropriate choice. 3i, for example, has recently created two funds targetting the Black Country and the East Midlands while other financial groups are placing more emphasis on regional investments.

The industry sector is rarely helpful as a means of selecting a backer since funds tend not to select investments on this basis, preferring to create a balanced portfolio to reduce their risk.

If a fund has backed several buy-outs in a particular field this will probably make it less willing to back another for fear of becoming too dependent on the fortunes of one sector.

The most helpful section in the glossy brochures produced by the buy-out financiers is likely to be the case histories of the companies they have backed. These will give an impression at least of the types of deal they are prepared to back.

Many management teams turn to an accountant to advise on which backer to choose. The accountant may then arrange a "beauty parade" to select the most promising backer.



Some of the largest buy-out investors are subsidiaries of large investment institutions such as the Prudential

Whatever the technical qualifications of the financiers, however, it is important that the managers can get on with them on a personal level. The managers and financiers will be working together not just for the three to six months it may take to put the deal together but possibly for several years afterwards.

When buy-ins were a new phenomenon a small number of organisations, such as Midland Montagu Ventures, 3i and MMG Patricof, took an early decision to specialise in this field alongside their buy-out activity. Now, however, most organisations will offer to carry out buy-ins as well as buy-outs.

Buy-ins require different skills and a good network of industry contacts to spot potential target companies so the managers are best advised to choose a backer with a track record in the buy-in field.

Unlike the US, management buy-outs in Britain have traditionally been arranged by venture capitalists who expanded in the early 1980s from backing start-up companies to financing management buy-outs.

Some venture capitalists are independent partnerships such as Advent and Thompson Clive, while others such as Charterhouse, Midland Montagu and Schroders are subsidiaries of banks.

The independents raise their own money from institutional investors while the banking offshoots call upon the resources of their banking parents.

Some of the largest buy-out investors are directly-owned subsidiaries of large investment institutions such as the Prudential, Legal & General and Globe. These organisations have a long history of devoting part of their large resources to unquoted investments though the sharp stock market swings of the past four years have, if anything, made unquoted investments relatively more attractive.

The merchant banks were slow to catch on to buy-outs, mainly because the early deals were small-scale and required industrial and investment expertise not usually available to them.

The rapid leap in the size of deals in 1987 and the arrival of the first of the public company buy-outs around the same time stirred their interest. The potential for earning large fees and the need for their financial skills to structure public company buy-outs brought them into this market.

The increasing size of deals created the need for mezzanine finance – which occupies a half-way house between equity and debt.

This was initially provided by some of the established backers of buy-outs but the growing amounts needed finally led to the establishment of several specialised providers of mezzanine funds such as GE Capital Corporate Finance Group (part of GE Capital of the US) and Intermediate Capital Group (backed by a range of international investors including Banque Parisbas, Prudential Venture Managers and the Industrial Bank of Japan).

One important issue which should be discussed at an early stage of discussions with potential backers is their policy on exits. Some organisations will work to a fairly tight timetable to make a profit on their investment and will expect to float the company or sell it off within, say, three to five years.

Others may take a more relaxed view and be prepared to wait a little longer. The buy-out managers must make sure that they and their backers agree on their long-term aims to avoid disputes.

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MANAGEMENT BUY-OUTS 10

ITALY: The market is picking up, writes Haig Simonian

Quite small, but lively

ALTHOUGH often overshadowed by bigger European economies such as France and West Germany, the Italian management buy-out market has become increasingly lively in recent years.

As in other European countries, precise figures are hard to come by, as only a handful of deals are publicised. But an indicator of the level of activity – or at least expectations – in Italy is the sharp growth in the number of participants.

Foreign financial institutions tend to predominate, especially among the newcomers, with a particularly strong UK showing. In the past two years, both Schroders – through its local Schroder Associati affiliate – and Rothschilds have established Italian venture capital funds, whose investments are often linked to buy-outs.

Recently, Baring Brothers and Investors in Industry (3i) have joined their ranks. Like Schroders, Barings is represented in Milan both through the merchant bank and via its specialist venture capital arm, Baring Capital Investors. Meanwhile, a number of other foreign players are already well entrenched, with Citicorp probably their doyen.

Schroder's L100bn Italian fund, established as the first of its kind in 1988, has been backed by a mix of UK, US, Japanese and Dutch insurance companies and pension funds.

Some L20bn of the fund has been invested so far in about 15 separate deals, according to Mr Paolo Colonna, the engineer turned McKinsey consultant who now runs Schroder Associati along with Mr Mario Ferrario. At its present rate of progress, the fund should be exhausted within the next 3-4 years, he says.

The team's best known operation has been the sale of a 65 per cent stake in Cantieri Riva, the Italian luxury power boat-maker, to Vickers of the UK. Schroder Associati's involvement in the company began in 1988, when its Italian Venture Fund financed and organised a management buy-out at Riva.

Rothschild's $30m equity fund, which aims to take direct, and preferably controlling, stakes in small and medium-sized Italian companies with sales of $25-$200m, has been fully subscribed, according to Mr Richard Katz, the managing director of Rothschild Italia.

The shareholders, formed by a variety of US, UK and European institutions, have taken stakes of up to $5m each. Although the fund has not closed any deals so far this year, four or five transactions are "close to fruition," with another 20-odd in the melting pot, he says. "It's a marvellous entrée into the best sector of Italian industry," Mr Katz believes.

By contrast with the foreigners, most of the big Italian commercial banks have been slow off the mark in buy-outs.

By contrast with the foreigners, most of the big Italian commercial banks have been slow off the mark in buy-outs

However, Istituto Bancario San Paolo di Torino has established itself through its Sanpaolo Finance subsidiary, while Sopaf, the merchant bank in which Kidder Peabody owns a 5 per cent stake, is also active.

Sanpaolo Finance can claim credit for Italy's biggest leveraged transaction so far. In early June, it masterminded the L121bn sale of the Italian valve-making subsidiary of Nova, the Canadian energy and petrochemicals group, to a Sanpaolo Finance-led investors' group which included the company's Italian management.

Grove Italia's managers have taken an opening 4.76 per cent holding in the venture, against the 31.75 per cent each retained by Sanpaolo Finance and Nova, and the 15.87 per cent each held by Arca Merchant Bank and Ciflip, two smaller Italian financial institutions.

The plan is for the management's stake to "grow considerably in the future as the set goals of the operation are reached," according to a Sanpaolo Finance official.

Although the number of buy-outs in Italy is still limited, bankers are buoyed by the possibilities. Those stem principally from the country's economic structure, with its vast number of small and medium-sized companies, many of them still family-controlled.

Although the Italian family owners do not face the same tax incentives which triggered such a rush of sales in West Germany in the closing months of last year, there are many parallels with the German Mittelstand.

Many of the Italian companies were set up after the Second World War, meaning that their founders are now at or near retirement age. Generally, the tendency for the next generation to carry on the business is even stronger than in West Germany. But there are still enough exceptions where families have been as ready to cede control as to encourage bankers.

Many speak highly of the strong entrepreneurial streak among Italian managements, meaning that there is often a much greater readiness to consider the new ideas such as buy-outs than in some neighbouring European countries.

"Managers are willing to listen, and many display a marked flexibility and innovative spirit which is not too encumbered by deference to the past," one banker says. Even making contact is much less of a battle in Italy than in West Germany.

One of the relatively few drawbacks to the Italian buy-out business is the lack of suitable exit channels, according to Mr Colonna. The Italian stock exchange remains under-regulated and highly volatile, meaning that eventual flotations are excluded as far as he is concerned.

That means the only alternatives are releveraging, for example via a management buy-out after an original venture capital investment, or a trade sale, as in the case of Riva.

With so many banks, particularly foreign, bidding for buy-out business, one of the problems may be finding the right staff. Hiring people plugged into the right networks in order to obtain introductions and tips is the name of the game, according to Mr Gherardo Barbini, the managing director of Baring Brothers (Italia).

Ex-consultants, accountants or people with a technical background in industry are as much in demand as financial whizzes, agrees Mr Jonathan Bliss, the head of the 3i's new Milan operation. Like the others, he has managed to find offices – not easy in central Milan – and steer his way through Italy's bureaucratic jungle to set up a limited company. All that is left now is to start winning mandates.

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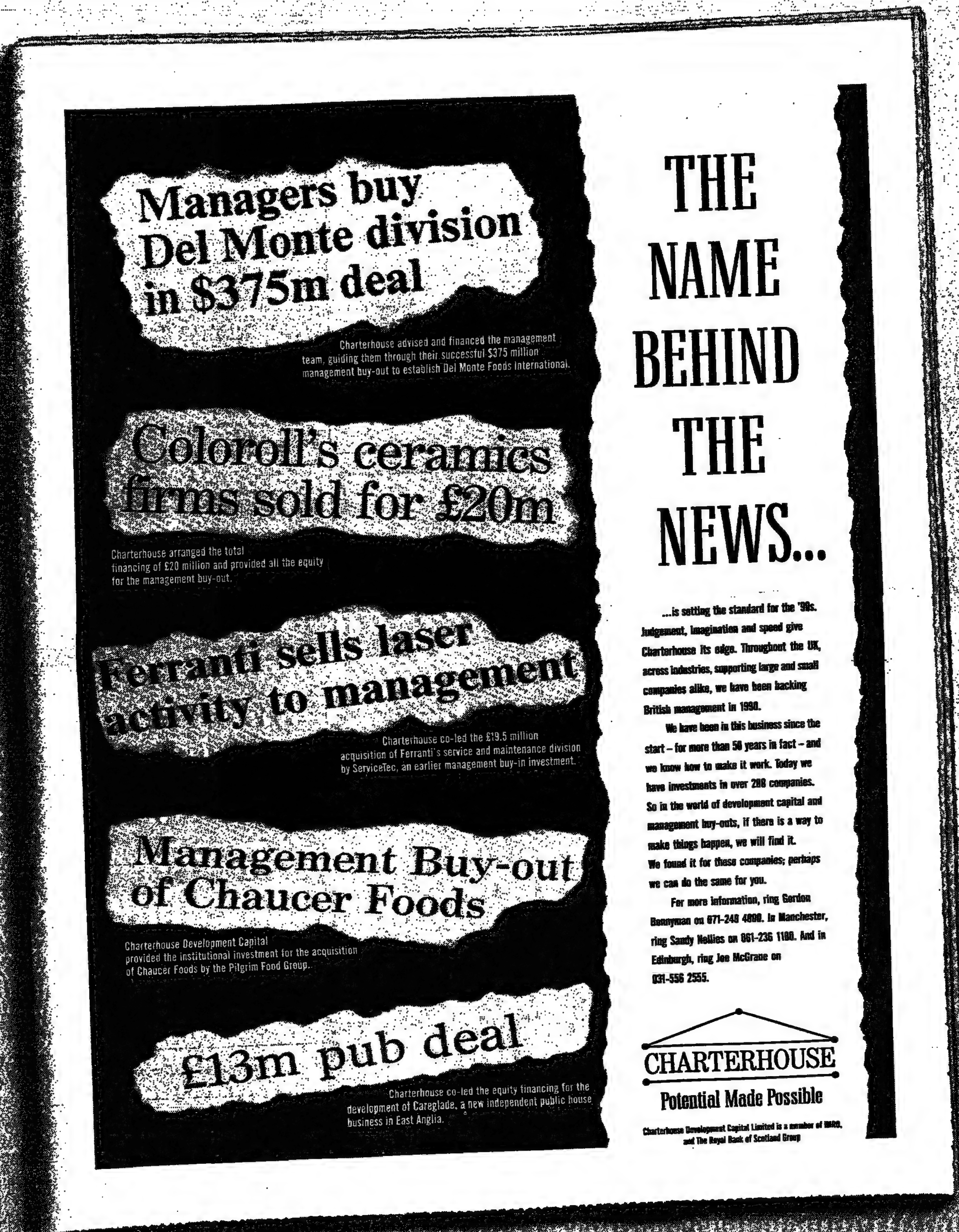
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Charterhouse advised and financed the management team, guiding them through their successful $375 million management buy-out to establish Del Monte Foods International.
Coloroll's ceramics firms sold for £20m
Charterhouse arranged the total financing of £20 million and provided all the equity for the management buy-out.
Ferranti sells laser activity to management
Charterhouse co-led the £19.5 million acquisition of Ferranti's service and maintenance division by ServiceTec, an earlier management buy-in investment.
Management Buy-out of Chaucer Foods
Charterhouse Development Capital provided the institutional investment for the acquisition of Chaucer Foods by the Pilgrim Food Group.
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Larger management buy-outs 1981/1990 (Total funding in £m)

£m	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990 (to date)
10-25	Famous Names(8) Hornby(10) Gleneagles(14) Anselone(14)	Isis(8) Stanley Gibbons(8) Stoss(10) Amalg Foods(21)	SPP Group(8) E and Am Ins(10) Thermalite(13) Victualic(14)	Westbury(10) DRI(22) Paragon(24)	Brymon Airways(5) Evans Halshaw(10) *Cullens(10) Bison(10) Willis Faber(10) Tibbet & Britten(10) KDG Instruments(11) Esconelle(11) European Ind Ser(12) A.J. Archer(13) Record Ridgway(13) Secure Homes(13) Royco(13) Bellwinch(13) Ellerman Lines(15) V Thornycroft(18) Wades(18) Bradstock Ins(20)	Exacta(10) *Acsil(10) Jeyes Hygiene(11) Maccess(11) Partco(11) Trend(12) Parmelia(12) Gomme(12) Cundell Corrugated(13) Intercraft Designs(15) Nestor BNA(15) Computing Devices(19) Tachalbon(21) Berkertex(23)	Leyland Bus(10) RFS Industries(10) *Life Sciences Int(10) Venture Pfast(11) Porth Dec Products(12) Holiday Dyes(12) Jenson Green(13) *New Scotland Ins(15) AVO(15) Serco(15) Gold Crown Foods(15) Aquaflex Products(18) Aynsley China(18)	Kirklees Chemicals(10) Redstone Tech(10) Celebrity CP(10) National Express(10) Lowfield(11) Burlington Ind(12) Motor World(13) *Burn Stewart(13) AMG Inds(13) Hamp Publishing(13) *Autoclenz(13) *Clarimont(14) Grand Transport Systems(14) Lowndes Lambert(15) Grampian CF(15) Peerless(18) Maccess II(18) ABI Caravans(20) John Perring(21) Welland Homes(21) Travellers Fare(21) *European Brands(27) Meteor(22) Yorkshire Rider(23)	Busways(10) Citytab(10) Rosenthal(10) *Range Valley(11) *Abacus(11) Sechers Silsa(11) Coin Industries(11) *Maison Caurette(11) Lancashire Enterprises(11) Fine Art Wallcoverings(11) *Haigh Castle(12) Golden West Foods(13) *Ratchfits(13) Tallent Eng(13) Horlicks Farms & Dairies(12) *Valor Stoves(14) *Country Casuals(14) County Holidays(14) BREL(14) Eurovein(14) *Hill Leigh(15) May Gurney(15) *British Air Ferries(15) *Exide Batteries(16) Wilcoplastic(17) Great CD(17) Godiva(17) *Britannia Data Mgt(18) Barbour Campbell(18) Mercado(20) Solicitors' Law Stationery Soc(20) *Service Tec(20) Harland & Wolff(21) Skeda(21) *Thames Int(22) *Robeisan(22) *Hamleys(24)	Mercury SDS(10) Moorwood Vulcan(13) Peter Cox(10) *Wilcox(10) Astra Training Services(11) *East Lancs Paper Mill(11) Eaton Williams(11) *Juliana Sound Services(11) Licensed Clothing(12) Camb. Capacitators(12) Premium Life(12) Cannons(14) *Betta Stores(16) Kosset Carpets(16) Alexander Duer(18) Flexpack(20) Staniz Tableware(20) *Wimpy Restaurants(20) WW(21) Sage(24)
25-50		First Leisure(44)	Haglo(28) Timpson(42) Collier(47)	Wordplex(28) Allerquest(28)		Halesworth(25) GBE International(25) Evans Healthcare(34) UK Paper(38) Norwest Hotel(45) Gillow(45) City Merchant Dev(46)	Istel(28) United News Shops(29) Clares Equipment(29) Crown House Eng(35) *Raleigh(42) Rentco(43)	Gooding(26) *FJC Lilley(27) Harveys Furnishings(28) Mono Pumps(29) Eurocamp(32) UK Shoe(35) Daveit(37) *Needwood(38) VF Int(39) Alma(40) Goldsmiths(40) Sheffield Forgemasters(42)	Elizabeth Shaw(25) Aspinal Carzon(25) AEC(28) *Beacon(29) Trinity(31) Bell Fruit(32) Fenchurch Insurance(32) *Court Cavendish(35) Norwich Corrugated(36) Britannia(36) Nottingham Group(37) MBS(41) Video Arts(44) Meco Int(45) Healthcall(46) Ellingworth Morris(48)	Keller(26) Hoselock(27) Ravenhead(27) Raxboro(31) Appledore(31) *United News Shops(33) Normand Motor(34) British School of Motoring(40) *Walter Alexander(42) *David Brown(48)
50-100		NFC(50)		Target(50)	St Regis(52) Haden(60) Caradin(56) Mallinson-Denny(93) Mecca Leisure(38)	Fairey Group(51) TIP Europe(80) Parker Pen(74) United Machinery(86)	BTA(50) Unipart(52) Pontins(60) Assoc Fresh Foods(68) *Unit Precision Ind(76) Moores Furniture(80)	*Financial Ins(56) York Trailer(61) Glass Glover(62) EIP(68) ITC(70) *Lewis's(74) Palmer & Harvey(86) Response(87) IMS Lycrete(88)	MCD(52) Tyack(52) *Crockfords(53) United Carriers(55) Gill & Duffus(58) Kenwood(66) *Square Grip(58) Highland Participants(73) *James Neill(79) Strand VCI(88)	Hay Group(50) Hazelwood Snack(55) Really Useful(77)
100-250						Premier Brands(100) VSEL(115)	Wickes(120) Int Leisure(157) Compass(160) ASW(161) Lee Int(186) Humberclyde Inv(205)	Invergordon(116) British Fuels(134) Hollis(148) Argus Press(207) Virgin(248)	Ryan(113) London Clubs(125) Maritime Transport Serv(158) MW Marshall(175) Charles Church(203)	Yardley Lentheric(110) Landhurst(158) *Jarvis Hotels(215)
250+		*Kingfisher(310)			Lawson Mardon(280)		Hays(255) MFI Hygena(718)	*Cope Allman(365) BPCC(273) Britton Inds(405) *Lowndes Queensway(450) Reedpack(505)	Allders(280) Magnet(667) *Gateway(2,375)	Del Monte Foods(424)

Larger management buy-outs are taken as those with total funding of over £10m (subject to allowance for inflation until 1986).
UK MBOs include MBIs (indicated by an asterisk), but exclude leveraged acquisitions where the managers' stake is incidental, refinancings and UK financial offshore MBOs.
Source: KPMG Peat Marwick McLintock, 15th August 1990.

MANAGEMENT BUY-OUTS 12

PROFILE: Jennifer d'Abo

'A business is four walls with people in it'

JENNIFER D'ABO comes across as a formidable character – the sort of person for whom crowds part to make way. And when it comes to business, she seems shrewd, versatile and imaginative. How else would the former chairman of Ryman, the office stationery retailer, come to buy a compost maker based in Bournemouth, and build on it to form a major horticultural group?

Ms Jennifer d'Abo: gold from compost-making

The compost-making company was only the beginning of her new project, which she has taken on with the former Ryman team. In her words – snatched over her carphone as she sped to the airport for another trip abroad two days after her return from the last one – after Ryman's takeover by Pentos in July 1987, she "went off to do a design consultancy in the US to clear my head." On her return she met up with her former Ryman colleagues, who thought they should work together again.

"I put the word out among my friends that I was looking for a business," she recalls. A bank manager "friend" came up with a possibility – Roffey Brothers, the compost producer, which was for sale. "He said 'I don't think it's for you, Jennifer' – so I jumped in the car and went down to see it."

What she saw was a company with potential which would keep the Ryman team together and act as a stepping stone. Mr Stephen Billyeald, former managing director of Ryman, adds: "It had to be something that interested us and had a future. We could see its potential [but] we knew we were going to have to do something else."

That initial purchase, for "just over £2m," according to Mr Billyeald, was funded privately by the management team and shareholders who had supported Ms d'Abo's previous ventures, including Ryman. The company "turned out to be more interesting than expected," says Ms d'Abo. Roffey produces turf dressings, among other things, and its largest customer was T. Parker & Sons, which sold the dressings to garden centres and leisure industries such as golf courses and sports clubs. Because of "that famous word synergy," it seemed sensible to have T. Parker as part of the group.

The owners, the Parkers, had not thought of selling, and the Roffey team spent 18 months talking to them before the deal went through in May. "We persuaded them to sell," says Mr Billyeald. The final price was "in the region of £1m."

Meanwhile, the group had been looking at the retail possibilities of their new venture. "We needed design input to use our skills," says Mr Billyeald – apart from the Ryman experience, Mr Billyeald had spent 11 years with Marks and Spencer before becoming retail director of Ryman in 1982. Mr Nicholas Wood, operations director of the new group, had been at Debenhams for 11 years before joining Ryman in 1985 as retail director, taking over from Mr Billyeald who was moving to become managing director. Mr John Wynne-Williams, vice chairman of the new business, had been in advertising for 10 years before joining Ryman in 1982.

Ms d'Abo herself began her career with a small grocery store in Hampshire, moving through a department store, Burlingtons of Basingstoke, buying a toiletries manufacturer in Peterborough from the receiver before selling that in 1982, having become Ryman chairman in 1981. She turned Ryman from an ailing part of the Burton group to a successful stationery business with turnover of £20m. Pentos paid £20m for it in 1987. She has also been a director of Channel Four Television and the London Docklands Development Corporation.

Then in spring 1989, when the negotiations with T. Parker were getting under way, Moyses Stevens "came to our attention," says Mr Billyeald. Moyses Stevens is an upmarket UK florist which counts the Queen Mother among its customers. Ms d'Abo was called in as a design consultant to the company, and in August its owners, Blanchards, decided to sell it. Ms d'Abo realised that there was no nationwide florist and saw an opportunity.

By the autumn, the group was involved in the purchase of Moyses Stevens, eventually for £576,000, as well as in talks for T. Parker, so realised it needed institutional funding. In November 1989 both deals "went final," says Mr Billyeald, with Lloyds Development Capital providing £1.35m and the balance of about £200,000 from shareholders. Lloyds took a seat on the board of the newly-named Moyses Stevens Group, with a deal giving it the equivalent of an internal rate of return on its investment of 23.5 per cent, in the form of preferred shares, on which Lloyds receives a dividend, and preferred ordinary shares. There is a ratchet agreement that would increase this share to 40 per cent if the company did not achieve its targets: if it beat them, the management share would increase faster than Lloyds'.

Mr Billyeald says that as far as the price per share was concerned, Lloyds got the same terms as the shareholders: "New money is new money."

The purchase went through in May – but the team did not finish there. They also bought an importer of baskets and dried flowers, Wulfsohn and James, in June for £100,000, to complement the flower range.

Apart from new products, the group is likely to license the name abroad for flower shops and flower schools, which teach flower arranging and design and have attracted interest particularly in Japan. And among other things, the group is experimenting with using waste from apples, after they have been pressed to make cider, as a garden dressing.

Ms d'Abo thinks that as far as general businesses are concerned, business acumen will run them whatever their product: "I maintain that a business is four walls with people in it." So if you have got a business to sell, it might not be long before Ms d'Abo is putting the word out among her friends that she's in the market again.

REGIONAL DEVELOPMENTS

Big business in small deals

MR JOHN MORAN, head of County Natwest's Manchester office, says that one reason why management buy-outs are increasing in several UK regions is the slow-down in the national economy.

"When large groups of companies get into trouble there is a lot of opportunity for buy-outs among their subsidiaries. Three or four businesses in the Coloroll group are examples. The break-up of Parkfield will provide others," he says.

Mr Peter Folkman, of North of England Ventures, a Manchester fund, says that these are essentially distress sales by parents of the businesses involved.

However, unlike the early 1980s, when distress sales also predominated, managers are usually better trained and equipped to own the businesses they run, while financial backers can offer sounder advice on corporate strategy.

There is also a big difference between most buy-outs handled solely in the regions and those which have relied on London for financial engineering: they are usually much smaller, with a £20m deal considered large.

Indeed, most do not figure in the usual measures of buy-out activity, which have a £10m threshold to mark a buy-out's significance.

Buy-out activity has fallen with respect to deals over £10m, but is increasing at prices below that.

Mr Peter Rickitt of Rickitt Mitchell, a Manchester financial boutique, adds that many owners of successful businesses are selling up and retiring early so as to avoid the impending rise in capital gains tax to a rate of 50 per cent.

Many of the businesses involved have annual sales of up to £10m and make about £1m to £2m pre-tax profits. There are thousands in this size range in the Midlands and along the M62 corridor between Liverpool and Hull.

Price is another significant factor. The high multiples of 1985-87 are gone, with five times earnings a more sensible price.

In the size range concerned, this usually means buyers having to pay between £5m and £10m.

The availability of financial and professional tools and experts is another reason why buy-out activity is still strong in the regions. Mr Mike Davis, head of a busy corporate finance team at Ernst and Young in Manchester, says that just having the mechanisms for doing deals has made a big difference. There is no shortage of experienced people ready to help managements looking for advice and lenders – and pull in money from national sources if needed.

For example, Mr Peter Scaman, head of KPMG Peat Marwick McLintock's Leeds corporate finance team, played a leading role in the £20m July buy-out of the Lancashire-based Flexpack Group from PLM, Redfearn's new Swedish owner. Equity funding came from MIM Development Capital and CIN Venture Managers, with the Bank of Ireland and Intermediate Capital Group providing banking facilities.

Mr Davis says that compactness of financial centres also allows any professional leading a deal to take a potential management buy-out team around the offices of everyone they might need in just a few hours.

The deals, however, are now structured much more cautiously. "We have to be very careful about the amount of debt we can let managements lever," Mr Moran says.

The days are over when a management could borrow so much to buy out a business that it was hardly a going concern at the end of the deal – sometimes income was actually below what was being paid monthly in interest charges. Such deals relied on rapid growth in sales and profitability, sometimes as high as 15 per cent compound, but no lender would risk that today.

Current ratios are two – that is, a debt-to-equity ratio of two in the balance sheet, and income gearing also of two. The latter is regarded as possibly more crucial in determining whether a deal can proceed: it means that annual revenue must be at least twice the projected pre-tax profits.

"We are all now much more interested in examining a company's current trade position and making sure its forecasts are realistic in relation to that," Mr Moran says.

Again, however, the size of the businesses involved make the numbers and forecasts more manageable: the businesses are small enough to make it easier to assess whether managements really will be able to make things happen as promised.

Recent typical deals Mr Moran has done include the £9m buy-out of the upholstery division of Silentnight Holdings in Barnoldswick, a management buy-in at Babcock Gears and Wires – now renamed B & F Carter – in Bolton, the £3.2m management buy-out of Wickland Westcott, a human relations consultancy in Wilmslow, and the £7m buy-out of Metrotect, a pipeline coatings company in Cleckheaton, West Yorkshire.

Ernst and Young acted as intermediary in the last of these, the financing of which was syndicated by the Manchester office of 3i, where Mr Charles Richardson's team has led several notable deals in the last 12 months, including the £14m buy-out of Country Holidays, the Lancashire holiday homes rental agency.

The deal, in which 3i was supported by Barclays Development Capital, was one of the biggest buy-outs in northern England. It included £6m of equity and £3.5m of mezzanine loan finance from 3i, which took an initial 45 per cent share. Barclays Development Capital took 25 per cent.

Tighter gearing now means that the institutions are taking large holdings and keeping management's equity to small proportions, although ratchet arrangements enable managers to obtain more shares.

The buoyancy of the northern buy-outs market is encouraging financial institutions in other areas to look seriously at the field. For example, 3i launched a £50m management buy-out fund for the East Midlands in June.

Although this is the second for the region – a similar one launched in 1987 has now been fully invested – Mr Martin Gagen, 3i's director in Leicester, says that the East Midlands is comparatively lagging in buy-out activity.

Nevertheless, there were 85 buy-outs in the East Midlands between 1986-89, with 3i involved in nearly half of them. Last year alone, 3i backed two-thirds of the region's buy-outs.

The new fund will ensure that managements in the region can find local finance in either Leicester or Nottingham. The first management team to take advantage of it was that of Denby Tableware in Derbyshire, which has bought the business out from its failed parent – Coloroll.

Ian Hamilton Fazey

Distribution of private Management Buy-ins

Region	1989 (%)	1990 (%) (provisional)
South-east	37.9	40.8
East Anglia	6.9	40.8
South-west	6.0	3.7
West Midlands	12.1	7.5
East Midlands	10.3	
Yorkshire	6.0	18.5
North-west	13.8	18.5
North	4.3	-
Wales	3.5	3.7
Scotland	4.3	-
Northern Ireland	0.8	-
Total	100	100
Sample size	116	27

Source: Centre for Management Buy-out Research, Nottingham University

Distribution of Management Buy-outs

Region	1988 (%)	1989 (%)	1990 (%) (provisional)
South-east	38.11	36.87	40.67
East Anglia	2.70	4.13	2.00
South-west	5.68	6.49	3.33
West Midlands	12.70	10.62	12.00
East Midlands	5.14	7.08	5.33
Yorkshire	11.89	7.96	14.00
North-west	7.03	9.14	7.34
North	3.78	3.54	5.33
Wales	2.97	1.18	3.33
Scotland	9.19	11.50	6.00
Northern Ireland	0.81	1.47	0.67
Total	100	100	100
Sample size	370	339	150

Source: Centre for Management Buy-out Research, Nottingham University

PROFILE: Swan Hunter

A close-run success story

The Swan Hunter management team. Left to right, standing: Adrian Ould, Roger Vaughan. Seated: Ken Chapman, Alex Marsh, Peter Vaughan

SWAN HUNTER, the Tyneside warship builder sold to its management by the Government for only £5m in 1986, looks to have been one of the buy-out bargains of the decade.

The company has disclosed to the Financial Times that last year it made a pre-tax profit of £4.4m and that its net worth stands at £33m.

Assets include £20m in cash. The company has no net borrowings, turnover is approaching £100m a year, and a recruitment drive is under way in most departments to take numbers employed back above the 3,000 mark.

The order book is so full that jobs have been guaranteed until June 1992.

The spectacular and improving performance helps explain why Swan Hunter's workforce this summer started the shipbuilding industry's first 37-hour week. Fringe benefits, with 35 days of holiday a year, including eight public holidays, are claimed as the industry's best.

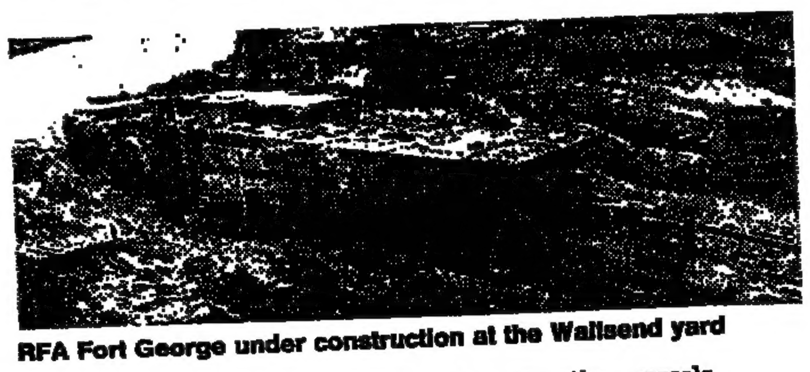
Financial institutions which helped with the buy-out – Globe Investment Trust was prominent – have been bought out, ensuring that the company is entirely privately owned by fewer than 40 of its managers.

However, success was a close run thing. The company was expecting to win an order for a naval fuel tanker soon after the buy-out, but it was given to Harland & Wolff, the then state-owned Belfast yard.

The loss almost torpedoed Swan Hunter and more than 800 jobs had to be shed. Ironically, the loss forced the Tyneside yard into accelerated change in order to survive. This appears to have paid off.

The management has persuaded the workforce to change its old, inefficient working practices and accept the stability of a succession of two-year pay deals.

Moreover, it has exploited the real snip among the assets it got from British Shipbuilders – a computer system valued at only £2m at the time of the buy-out.



RFA Fort George under construction at the Wallsend yard

Swan Hunter's mastery and development of this computer-aided design technology has enabled it to improve quality and make shipbuilding increasingly error-free.

One result has been the first "zero defect" ship – HMS Chatham, a Type 22 frigate – delivered to the Royal Navy. Four other ships had no defects emanating from the yard, only minor problems with bought-in equipment.

Although primarily a warship builder, the techniques learned and standards achieved are helping to win orders for other vessels.

Last year, Swan Hunter built a state-of-the-art cable layer for Cable & Wireless. A new ship under construction for the British Antarctic Survey will incorporate a "wobbling" facility so it can rock from side to side to escape icefields.

It has also used its computer system to design a new type of coastal patrol vessel – half the size of a frigate, but bigger than conventional small gunboats – which can peform various missions.

Several African, Middle East and Asian Governments are showing keen interest in the new patrol vessel.

The question is why Swan Hunter could not do all this when it was state-owned and part of British Shipbuilders?

In fact, it did all the research and development on computer-aided design technology for the industry in the early 1980s, but was operating under different incentives and motivations.

For example, it was not allowed to attack foreign markets and it has taken four years for the company to re-establish itself in the field.

Before the buy-out, which appears to have freed much unexploited talent, its capacity for quick, local decision-making was also very limited.

Mr Peter Vaughan, one of the directors, says that local pride and local ownership have been important in changing working practices.

The latest agreement, which will push typical wage levels to £250 a week, is the third two-year deal on pay and conditions. The first secured an end to demarcation and the "Spanish customs" traditional to dockyards.

"We think it's the first fully delivered 37-hour week in the industry," Mr Vaughan says. "But it means 37 hours. The old attitude was to start paying once people were inside the gate. We pay now only when people are ready to start work.

"We have electronic time-keeping near where people work. They start at 7.30am and there are no morning or afternoon tea breaks. People can take refreshments near their job as long as there is no loss of continuity. We do not pay for cleaning up. People finish at 4.24pm on four days a week and 11.54am on Fridays."

It is a far cry from 1986 when the workforce would troop off the job en masse to take tea breaks together, often far from their work. Not suffering such disruption has helped make the 37-hour week affordable, as well as contributing to a corporate performance many will find remarkable.

Ian Hamilton Fazey

PROFILE: Lowland Omnibuses

Right place, right time

LIFE IN a public sector company is at least as uncertain as it is in the private sector. Consider the case of Mr Douglas Pelling.

Mr Pelling, who is 47, joined the state-owned Scottish Bus Group (SBG) in 1969, expecting a long career in an organisation which operates buses all over Scotland. In 1987, having been company secretary of the Central Scottish subsidiary, he was posted to Galashiels in the Borders as general manager of Lowland Scottish, the group's subsidiary in the area.

In late 1988, Mr Malcolm Rifkind, the Scottish Secretary, announced that SBG was to be privatised in 10 local units. Last month Mr Pelling became chairman and chief executive of Lowland Omnibuses, an independent private company created through a management-employee buy-out of the former subsidiary.

"Some of us SBG executives have been in the right place when the music stopped. Others have not been so lucky," says Mr Pelling. The disposal of SBG's subsidiaries is only beginning, but not all management/employee teams are being successful. "I've got a chance in a lifetime and I'm grabbing it."

Lowland Scottish was a profitable entity within SBG, making pre-tax profits of £685,000 on sales of £5.5m in 1989 and similar figures the previous year. It has strong local support, being the only form of public transport in many parts of the Borders.

The company's first step is to consolidate

An initial battle to prevent Lowland being merged into and privatised with Eastern Scottish (which serves the Lothian area) was won with the help of local politicians such as Sir David Steel, the former Liberal leader. The idea of a management-employee buy-out was launched in early 1989 as the privatisation bill was going through Parliament. In January of that year staff began a savings scheme to set aside money to buy shares.

During 1989 Mr Pelling and his senior managers chose Grant Thornton, the accountants, to be their financial advisers. They drew up a business plan which incorporated what they could glean from Government statements about the priority the Scottish Office was likely to give to employee participation. After taking the plan round the banks they chose Bank of Scotland as their financial backer.

In February this year the Scottish Office set out the detailed rules for the privatisation of SBG. They included a clause stating that in the case of a management-employee buy-out (MEBO) at least 25 per cent of the ordinary shares should be owned by non-management staff. A "price preference" of up to 5 per cent would be given to an employee-based bid for a company.

What worried Mr Pelling and his associates was that other bus companies showed great interest in buying Lowland, notably the recently privatised Grampian and Northumbrian bus companies, which were looking at the company even as its staff were preparing their own bid.

The bid was submitted to SBG in May. After four weeks and two days of nail-biting SBG announced on June 1 that the MEBO had been chosen as the purchaser. The deal has now been finalised and the employees have subscribed to their portion of the shares.

Mr Pelling will not be drawn on the price which his consortium is paying for Lowland, though a figure of about £4m is widely quoted. Bidding was on a sealed tender basis. "We decided to give our best shot – we paid a commercial price. We just made one offer. We did not have any inside knowledge of what would be acceptable. There were no negotiations." He has no idea how, if at all, the 5 per cent discount for employee buy-outs was applied.

The MEBO consists of an equity component worth about £300,000 with the remainder made up of debt advanced by Bank of Scotland. Of the equity about 40 per cent (£125,000) is subscribed by the management (Mr Pelling and three other executives). The workforce have subscribed to about 30 per cent of the equity and Bank of Scotland has taken about 30 per cent.

About 60 per cent of the 270 staff subscribed to shares – for a minimum of £200 worth – but all staff are being allocated £50 worth of free shares if they have completed a certain period of service.

To avoid the windfall gains made in property by privatised bus companies in England, the Government made SBG take Lowland's depot in Berwick-on-Tweed out of the company and leased it back, and made the depot in Galashiels subject to a claw-back arrangement.

Mr Pelling foresees no difficulty in repaying the debt to the Bank of Scotland from the company cash flow. The business, he says, is already efficient and being a small bus company there is much more job sharing than in a big one, with drivers helping to clean their buses at the small depots.

But apart from the energy *that has gone into preparing* the MEBO in the past year and a half the company, like others in SBG, has, on Government instructions, been starved of capital expenditure.

In the last two years it has only bought one minibus when it would have liked to buy more, and it has not replaced its express coaches as it should have done. For about nine months Lowland was prevented from painting any of its fleet.

Lowland faces strong competition in the eastern part of its area along the east coast but virtually none in the heart of the Border country.

Mr Pelling says the first step is to consolidate the company, while later it will consider expanding, which is likely to mean competing with rivals in neighbouring areas.

Many in the bus industry believe that in due course some of the newly independent bus companies in Scotland will be taken over, while Mr Pelling says that buses are "a declining industry" as car ownership increases.

Mr Pelling admits the possibility of takeovers and implies that the ownership structure of the company does not make it impossible, though any takeover would need the support of both and managers and workforce.

"We bought this company to give a service to the community," he says, "not to asset strip it. But we have to react to changes in the market."

James Buxton

Leading Debt Arrangers

	Number of deals led 1981/86	1987/88	1989/90	Total	Total value £m	No. of investments
Nat West/County NatWest	9	14	18	41	946	64
Bank of Scotland	8	5	17	30	630	64
Barclays/BZW	6	12	9	27	527	48
Bankers Trust	6	6	7	19	1,417	20
Standard Chartered/CWB	2	12	4	18	1,001	29
Midland/Samuel Montagu	7	4	6	17	340	32
Charterhouse/Royal Bank of Scotland	5	2	8	15	795	30
SecPac		4	5	9	247	14
Citibank/Citicorp	3	3	2	8	620	14
Lloyds	4	1	1	6	67	20
Kleinwort Benson	2	1	2	5	123	14
Warburg		3	1	4	1,989	4
Chemical		3	1	4	1,430	6
Scandinavian	2		2	4	59	4
Continental		1	2	3	80	7
Manufacturers Hanover	2	1		3	50	3
Credit Agricole		2	1	3	47	15
CIBC		1	2	3	26	15
Den norske Creditbank	3			3	21	7
TSB		1	2	3	19	3
Toronto-Dominion		2		2	37	11
3i	2			2	12	15
Westpac			1	1	35	10
Creditanstalt Bankverein			1	1	6	19
Long Term Credit Bank of Japan						16
Industrial Bank of Japan						12
Allied Irish						10
Nippon Credit						10
Dai-Ichi Kangyo						9
Sumitomo						8
Nova Scotia						7
Banque Francaise du Comm Ext						7
Others	3	4	10	17	546	
None/not known/(duplication)	11	6	6	23	250	
	75	88	108	271	11,320	

Qualification: 3 deals arranged or 7 investments

Source: KPMG Peat Marwick McLintock
15th August, 1990

Funding of larger MBOs since 15th September 1989

Equity deal leader		Total funding	Equity	Mezzanine	Debt	Mezzanine deal leader	Debt deal leader
Alan Patricof Associates	Exide Batteries	16	5	–	11	–	
Bankers Trust	David Brown	46	8	9	29	First Britannia	Bankers Trust
Baring Capital Investors	Video Arts	44	11	12	21	3i	Nat West
Baronsmead	Servicetec	20	5	5	10	Intermediate Capital Group	Barclays
BZW	Bell Fruit Manufacturing	32	11	10	11	BZW	Barclays
Candover	Cambridge Capacitors	12	6	–	6	–	Bank of Scotland
Candover	Keller	26	12	–	14	–	Bank of Scotland
Candover/Kleinwort Benson	Jarvis Hotels	215	92	–	123	–	Bank of Scotland
Causeway Capital	Licensed Clothing Group	12	1	8	3	Causeway Capital	TSB
Charterhouse	Del Monte Foods International	424	141	80	203	PIC Capital	Charterhouse Bank
Chase	Strand VCI	89	10	15	64	Elders Finance	Chase/Nat West
CIBC Capital	Eaton Williams	11	3	1	7	CIBC	CIBC
CIBC Capital	Slade	21	11	2	8	CIBC	CIBC
CIN	Hay Group	50	17	–	33	–	Bank of Scotland
CIN	MCD	52	16	15	21	Intermediate Capital	Samuel Montagu
Citicorp	Horlicks Farms and Dairies	13	3	3	7	3i	Nat West
Citicorp	*Hozelock*	*27*	12	–	15	–	*Bank of Scotland*
Citicorp	Hazlewood Snack Division	55	18	10	27	Intermediate Capital Group	Bank of Scotland
Citicorp	Gill & Duffus	58	17	–	41	–	Citibank
Close Investment	Juliana Sound Services	11	3	5	3	Vendor	Nat West
County NatWest Ventures	Rosenthal	10	1	–	9	–	Royal Bank of Scotland
County NatWest Ventures	*Maritime Transport Services*	155	15	20	120	County NatWest Ventures	County NatWest
Creditanstalt	Fine Art Wallcoverings	11	1	4	6	Creditanstalt	Creditanstalt
Electra	Healthcall Group	48	9	7	32	Intermediate Capital Group	Bank of Scotland
Financere Indosuez	Peter Cox	10	2	4	4	Banque Indosuez	Banque Indosuez /Barclays
Gartmore	The Wilcox Group	10	2	1	7	British & Commonwealth	TSB
Granville	Moorwood Vulcan	10	4	2	4	Bank of Boston	Royal Bank of Scotland
Granville	Maison Caurette	11	3	2	6	SecPac	SecPac
Granville	Walter Alexander	42	18	10	14	SecPac	SecPac
3i	Mercury SDS & Higgs Air Agency	10	2	1	7	3i	Barclays
3i	Country Holidays	14	8	3	3	3i	Lloyds
3i	*Eurovein*	14	4	–	10	–	Hambros Bank
3i	Wimpy	20	5	3	12	3i	Bank of Scotland
3i	WW Group	21	4	6	11	3i	Midland
3i/Citicorp	Nottingham Group	37	14	6	17	3i	Royal Bank of Scotland
3i/Midland Montagu	Coin Industries	11	4	2	5	3i/Samuel Montagu	Samuel Montagu

Funding of larger MBOs since 15th September 1989

Equity deal leader		Total funding	Equity	Mezzanine	Debt	Mezzanine deal leader	Debt deal leader
James Capel/MIM	Flexpack	20	5e	3	12e	Intermediate Capital Group	Bank of Ireland
Kleinwort Benson	Premium Life	12	12	–	–	–	–
Kleinwort Benson	Cannons Sports Clubs	14	5	1	8	Kleinwort Benson	Kleinwort Benson
Kleinwort Benson	Godiva	15	2	3	10	Kleinwort Benson	Kleinwort Benson
Lloyds DC	Betta Stores	16	5	–	11	–	Bank of Scotland
Lloyds DC	Landhurst	158	8	–	150	–	Vendor
Marsden W. Hargreave Hale	Lancashire Enterprises	11	4	–	7	–	Co-operative Bank
MMG Patricof European Buy-in Fund	James Neill	79	79	–	–	–	–
Morgan Grenfell	Alexander Drew	19	6	–	13	–	Bank of Scotland
Morgan Grenfell	British School of Motoring	40	12	5	23	Vendor	Nat West
Phildrew	Kosset Carpets	16	3	4	9	Phildrew	Bank of Scotland
Phildrew	Wilcomatic	17	7	–	10	–	Nat West
Phildrew	United News Shops II	33	9	–	24	–	Standard Chartered
Phildrew	Normand Motor Group	34	7	2	25	Phildrew	Bank of Scotland
Private sponsor	Ravenhead	27	10	4	13	Bankers Trust	Bankers Trust
Scandinavian Bank	The East Lancashire Paper Mill Company	11	3	2	6	Scandinavian Bank	Scandinavian Bank
Schroder Ventures	Roxboro Group	31	6	–	25	–	Continental Bank
Schroder Ventures	Appledore	31	11	5	15	Nat West	Nat West
Wasserstein Perella	*Yardley Lentheric*	110	25e	–	85e	–	–
None/Not known	Aspinal Curzon	25	6e	–	19e	–	–
None/Not known	Astra Training Services	11	3e	–	8e	–	–
None/Not known	Golden West Foods	13	–	–	13	–	Barclays
None/Not known	Grand Transport Systems	14	n/m	3	11	Vendor	County NatWest
None/Not known	Staffordshire Tableware	20	5e	–	15e	–	–
None/Not known	Saga Leisure	24	–	–	24	–	Nat West
None/Not known	Highland Participants	73	–	–	73	–	Standard Chartered
None/Not known	*Really Useful Group*	77	19e	–	58e	–	–

This listing covers larger MBOs in the period from 15/9/89 (published on 11/10/89) to 15/8/90.

In cases of incomplete information the levels of debt and equity has been estimated by applying the average gearing ratio for the year in which the deal took place (marked "e").

Source: KPMG Peat Marwick McLintock
15th August, 1990

There are many pitfalls for the would-be buy-out team, warns **Charles Batchelor**, in his start-up guide

Managers beware: your first buy-out is usually the last

LIFE HAS become slightly easier over the past year for managers contemplating a buy-out.

Competition from trade buyers has slackened as the economic downturn forces companies to concentrate on getting their core business right rather than on making acquisitions.

The recession is also forcing companies to dispose of non-essential or poorly-performing businesses, increasing the range of buy-out opportunities.

However, these improvements in the buy-out climate should not obscure the fact that for most managers, their first buy-out is also their last. Few come to the deal with any previous experience. Managers without a financial background may find themselves dealing with bankers, venture capitalists and other species of financier for the first time at close quarters.

Familiarity with the idea of a buy-out has increased enormously in recent years, but putting theory into practice can be a unnerving experience. Managers have been sacked for proposing a buy-out and they may be putting their careers on the line if the deal does not go through.

Trade buyers are fewer in number but there may still be competition for the business from outside managers keen to stage a management buy-in. The outsiders may lack the incumbent managers' detailed knowledge of the business, but financiers are more than happy to back teams which they have selected themselves against a buy-out team over which they have less control.

So how should managers go about staging a buy-out, and what are the pitfalls?

The first step is to put together the management team. Financial backers will want to see a well-balanced group of managers, probably comprising someone with man-

Financial backers will want to see a well-balanced group of managers

aging director experience as well as people with finance, marketing and production skills. If there are obvious gaps in the team the financial backer may suggest people to fill them.

The smaller the team, the better because this speeds up the decision-making process and reduces the opportunities for disagreement.

The managers must establish at the outset whether a buy-out is possible before wasting too much money on advisers. Is the vendor willing to

However, putting theory into practice can be a unnerving experience

sell and can the business being bought stand alone without the support of other group operations?

Advisers must be chosen for their experience in the buy-out field. The growth in the popularity of buy-outs means there is no shortage of accountants, merchant banks, venture capitalists and buy-out specialists to provide help, but choosing the most suitable may prove a problem.

Some financiers specialise in smaller deals – of less than, say, £10m – while others will only back much bigger transactions.

Most buy-out financiers produce brochures detailing their previous transactions. These can be studied to gain an idea of how they go to work. Most important, though, in choosing an adviser is finding someone you can get on with.

The adviser will help the managers over what is often the most daunting obstacle – negotiating with the boss.

Managers will probably be reluctant to give details of the negative aspects of the business they want to buy for fear of provoking the outraged response of "well, why didn't you do something about it before?" but an independent adviser will have no qualms in explaining a business's blemishes to the vendor.

The advisers may also help prepare the business plan, though this must be mainly the work of the managers themselves.

The plan should explain the background to the buy-out and what the managers believe is the business's "unique selling point."

It must place particular emphasis on the managers involved and their backgrounds and experience. As the financiers never tire of explaining, they are not backing a company or a product but management.

The plan must also give details of the finance required, the market place in which the company will be operating, the risks and challenges it faces and its future plans.

For the managers the beauty of a buy-out is that for a relatively small injection of the total funding needed (though still a large amount in terms of their personal assets) they obtain a disproportionate share of the equity.

Financial backers are happy to go along with this because experience has shown that managers in this position are highly motivated to make the business succeed.

To increase the incentive for managers, many deals include "ratchets," arrangements whereby the managers' equity stake increases if they meet certain performance targets. Managers should negotiate for as much of the equity as is

The recession is forcing disposal of poorly-performing businesses and increasing buy-out opportunities

reasonable but they should be aware that if they hold out for too much, they may drive their financial backers to support someone else.

Managers will probably need to take expert advice on how much money they need to raise and the relative roles of equity, debt and, if necessary, mezzanine finance in the total package.

They must balance raising sufficient funds to see the company through the early difficult years against over-extending themselves.

The vendor may be prepared to assist in financing the deal by allowing deferred payment or by retaining a minority equity stake in the company.

Even as they are negotiating their independence, managers must give thought to what will happen to their company in three to five years time, when their financial backer may be looking for an "exit."

The backer will be basing his calculations on selling or floating the business after a number of years.

However, one option is for

For most managers, their first buy-out is their last

the managers to buy out the other shareholders. This may appear ambitious when the business starts out loaded with debt, but as the debt is paid off the banks will become willing to finance the buy-in of the outstanding shares.

Negotiating the deal is likely to take several months and there are bound to be periods of tension and depression. Managers are advised to stay cool and professional during this period and not to resort to bluff and bluster.

It may help to work out an alternative to the buy-out – for example, starting up a new business from scratch – to provide the managers with a fall-back position.

This will help them to keep a cool head when prospects look bleak.

Useful Reading: Guide to Management Buy-Outs, Economist Publications, £55.

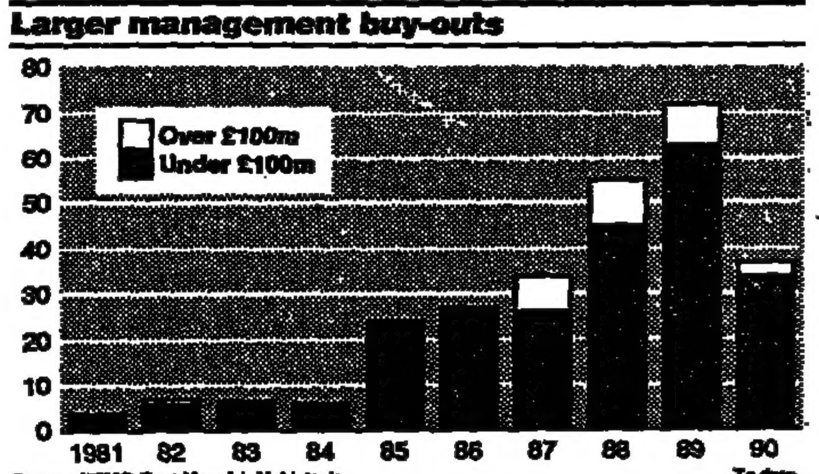
Use of Mezzanine on UK MBOs over £10m

	MBOs using Mezzanine Number	Amount of mezzanine £m	Total value of deals £m	Total MBOs Number	Total value of deals £m	% of deal covered by mezzanine	% of MBOs using mezzanine	Average size of mezzanine layer £m
1985	5	123	430	24	880	29	21	25
1986	7	96	380	27	940	25	26	14
1987	13	207	1,510	33	2,750	14	39	16
1988	25	277	1,850	55	4,510	15	45	11
1989	38	871	4,830	71	5,850	18	54	23
1990 (to date)	21	166	880	37	1,720	19	57	8
	109	1,740	9,880	247	16,650	18	44	16

Source: KPMG Peat Marwick McLintock 15th August, 1990

Ratchets, which allow managers to increase their equity stake if set performance targets are achieved, are a common feature of management buy-outs. However, even Mr Derek Hunt, who led one of Britain's largest buy-outs, the £718m acquisition of MFI, admits that at first he did not fully understand how the ratchet worked

Larger management buy-outs



Source: KPMG Peat Marwick McLintock

BNP: THE FUTURE IN HAND

1989: BRISK ACTIVITY, STRONG INCOME GROWTH.

In the midst of an extraordinarily eventful year and an international context of economic growth and financial market volatility, BNP successfully reasserted its basic ambitions: strengthening its position as leading universal bank in France and playing a major role in banking in Europe and the rest of the world.

In France and abroad, BNP increased market share, developed networks, enlarged the range of its products and services, modernized its operating facilities and strengthened its financial structures.

Professionalism, quality and innovation are the key values of our corporate plan, serving every category of customer. BNP has its future well in hand.

■ THE LEADING UNIVERSAL BANK IN FRANCE

1989 was a year of **brisk activity for BNP**, with strong growth in deposits, lending, asset management and financial transactions.

The bank thus enlarged its share of the market, particularly with respect to private customer and small and medium-sized company lending. At the end of 1989, assets managed by BNP (deposits, UCITS, life insurance) reached FRF 480 billion, increasing by 12.8%.

The agreement with UAP enabled BNP to offer a broader range of services and to diversify channels of distribution: "insurance windows" have already opened in a number of branches.

BNP developed its network: Banque de Bretagne joined the Group with its 78 branches and its subsidiary Banque de la Cité.

At the same time the bank increased the pace of **modernization of its operating facilities.** In its branches, renovated and more functional, 15,000 multi-purpose work stations have been installed, with direct data acquisition capabilities for customer transactions. More than 1,000 BNP automatic teller machines are now available to the public.

On financial markets, BNP bolstered its number one position in share flotations (52 transactions), stock market listings (9 listings on the second market), commercial paper and certificates of deposit.

■ A MAJOR GLOBAL PLAYER

In pursuing its international development, BNP has decided to base its growth on a policy of alliances, acquisitions and international developement.

A close relationship has been established with DRESDNER BANK. In Italy, BNP has become a shareholder of CREDITO ROMAGNOLO. BNP ESPAÑA alone opened 15 new branches in Spain in 1989.

The bank has returned to countries with which it has historical ties: Algeria, Vietnam, Madagascar. It broadened operations in Indonesia and Turkey and opened a subsidiary in Uruguay. The establishment of a leasing company in the USSR and a financial company in Hungary are the first stages of an active penetration of Eastern Europe.

In view of the Single European Market, BNP launched the first comprehensive line of European mutual funds, based in Luxembourg.

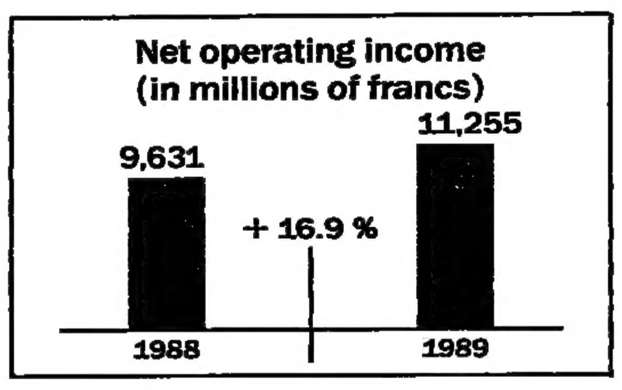
Three figures highlight the increase in BNP's earnings.

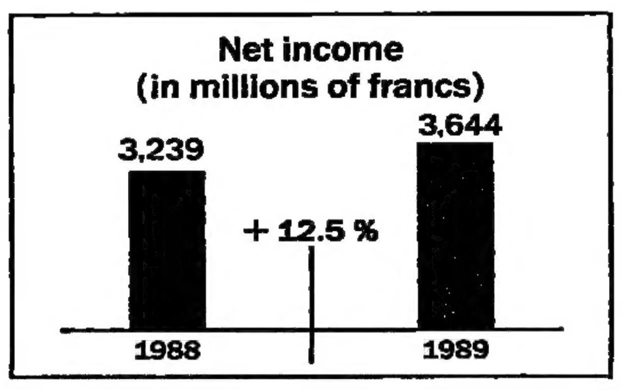
For the first time in its history, BNP's net operating income exceeded FRF 10 billion, reaching FRF 11,25 billion, a 16.9% increase.

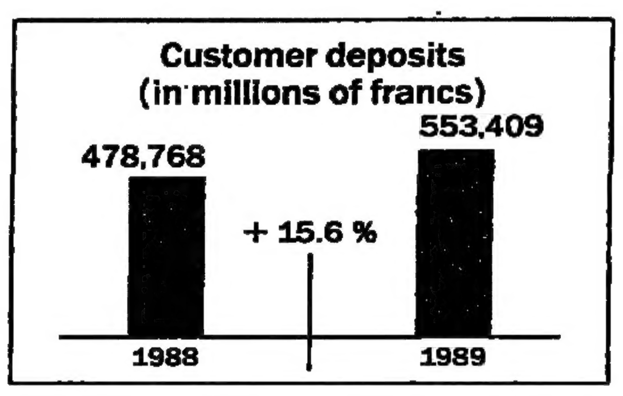
Net income for the Group rose to FRF 3.65 billion (+ 12.5%).

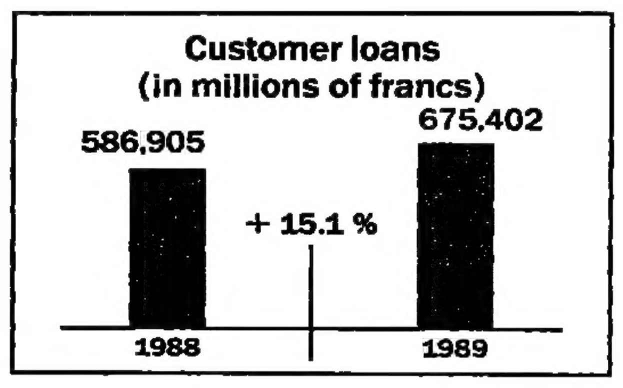
The dividend, including tax credit, of FRF 21.60 (versus FRF 19.50 in 1988) represents an increase of 10.80%.

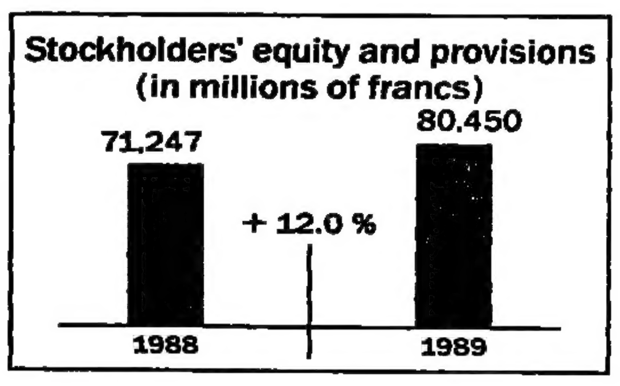
BNP 1989 : KEY FIGURES

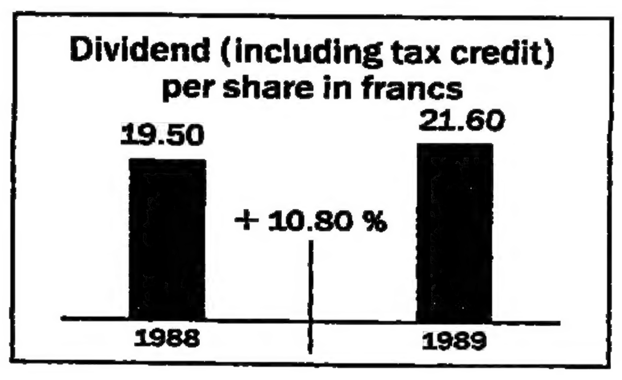












WORLD BANKING IS OUR BUSINESS

BNP

MEDIA-FINANCE